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Standards in Transition Not-for-Profit Organizations

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Agenda

- Overview of changes
- Determination of NPO or GNPO
- Changes for NPO in “Private Sector”
- Changes for GNPO who elect 4200 (very briefly)
- Changes for GNPO Public Sector Accounting Handbook without 4200

Definition of NPOs and GNPOs

Two types of Not-for-profit organizations:

Government Not-for-profit organizations (GNPO)

- Those controlled by a government as defined in PSAB 1300.08
- Government has the power to govern the strategic financial and operating policies
- Expected benefit or risk of loss to the government

Private Not-for-profit organizations (NPO)

What has changed?

Accounting Standards Board Decisions:

Conversion to International Financial Reporting Standards for Publicly Accountable Enterprises (IFRS)

New Accounting Standards for Private Enterprises (ASPE)

Private Not-for-Profit Organizations ?

Public Sector Accounting Board Decisions:

Public Sector Accounting Standards (PSAB) for Governments

IFRS for Government Business Enterprises

Choice of IFRS or PSAB for Other Government Organizations

Government Not-for-Profits ?

Current Standards for NPOs and GNPOs

Government not-for-profit organizations

PSAB has the ability to determine accounting framework for GNPOs

PSAB currently directs GNPOs to follow standards in CICA Handbook – the 4400 series

Other not-for-profit organizations

Standards are issued by Accounting Standards Board

Follow the standards in CICA Handbook – the 4400 series

Under the current method there is consistency between NPOs and GNPOs

Future Accounting Standards for GNPOs and NPOs

Government not-for-profit organizations

Choice of:

- Public Sector Accounting (PSA) Handbook supplemented by standards unique to not-for-profit organizations (the “4200 series” – the former 4400 series)

OR

- Public Sector Accounting Handbook

Other not-for-profit organizations

Choice of:

- Accounting Standards for Not-for-profit organizations (Part III of the CICA Handbook – “4400 Series”)

OR

- International Financial Reporting Standards (IFRS)

Effective date

- Years commencing on or after January 1, 2012

Minister of Finance – Treasury Directive

On September 7, 2010 the Treasury Board (BC) issued a directive to all taxpayer-supported crown corporations and agencies to adopt PSAB standards, **without not-for-profit provisions, as follows:**

- **School Boards, Universities, Colleges, and Health Authorities – first fiscal year commencing after January 1, 2012 (July 1 2012 – June 30, 2013 for School Boards; April 1, 2012 – March 31, 2013 for others)**
- **All others - first fiscal year commencing after January 1, 2011**

Elections and choices within PSAB will be determined in consultation with the Comptroller General

Other provinces to follow??

Standards Prior to Effective Date

- **Early adoption permitted**
- **Current standards in Part V of the CICA Handbook (including the 4400 series) will continue to apply until the new standards become effective**

Determination of NPO or GNPO

Definition of Not-for-Profit

- It is an entity normally without transferable ownership interests.
- It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
- Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

Government not-for-profit organizations (GNPO)

- Controlled by a government as defined in PSAB 1300.08, Government Reporting Entity
- Has counterparts outside the Public Sector

Other not-for-profit organizations (NPO)

- Not controlled by a government

Control Determination

- **Control over financial and operating policies is the focus – as they determine how activities are conducted**
- **The fundamental basis for achieving mission and mandate**
- **PS 1300.14 includes three examples:**
 - Financial & Operating policies that have been predetermined
 - Ongoing direction over Financial & Operating policies
 - The right to veto, overrule or modify Financial & Operation policies

Indicators of Control

Persuasive

- **Unilaterally appoint a majority of Board**
- **Ongoing access to assets, direct use or responsibility for losses**
- **Voting control**
- **Unilateral power to dissolve**

Other

- **Significant input into appointments**
- **Appoint/Remove CEO**
- **Establish or amend mission**
- **Approve business plans or budgets**
- **Restrict revenue generating capacity**
- **Establish or amend management policies**

Accounting Standards Decision

Factors to consider in determining which GAAP to adopt:

- Users of the financial statements and their needs
- Strategic long-term goals of the entity
- Internal resources available and skills/competency of those resources; training required
- Impact on any systems or processes currently being used
- Impact on any existing contracts (banks, compensation arrangements, supplier/customer contracts)
- GAAP adopted by comparative organizations; consistency and comparability of financial statements to others
- Cost of adoption and ongoing compliance of different standards
 - i.e. Part III vs. IFRS
 - PSAB with 4200 versus PSAB
- Possibility of upcoming changes in GAAP



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Not-for-Profit Organizations

NPO Standards – Part III of the CICA Handbook

New		Replaces
1001	Financial statement concepts for not-for-profit organizations	1000
1101	Generally accepted accounting principles for not-for-profit organizations	1100
1401	General standards of financial statement presentation for not-for-profit organizations	1400
1501	First time adoption by not-for-profit organizations	N/A
3032	Inventories held by not-for-profit organizations	Part of 3031

NPO Standards – Part III of the CICA Handbook

New		Replaces
4400	Financial statement presentation	4400
4410	Contributions, revenue recognition	4410
4420	Contributions receivable	4420
4431	Capital assets	4430
4432	Intangible assets	NEW
4440	Collections	4440
4450	Reporting controlled and related entities	4450
4460	Disclosure of related party transactions	4460
4470	Disclosure of allocated expenses	4470

NPO Standards – GAAP Hierarchy

Per section 1101 – Generally accepted accounting principles for not-for-profit organizations

Primary sources of GAAP in descending order of authority

- Part III of the Handbook
- Part II (ASPE) of the Handbook to the extent the topics are not specifically discussed in Part III
- Accounting Guidelines in Part II

NPO – Other Standard Changes

Topic	Handbook reference
Employee future benefits	Part II Section 3461
Financial instruments	Part II Section 3856
Asset retirement obligations	Part II Section 3110
Intangible assets	Part III Section 4431 & Part II Section 3064
Transition Elections	Part III Section 1501

NPO – Employee Future Benefits

Accounting Policy options:

- Immediate recognition approach, or
- Deferral and amortization approach (existing rules)

Change in measurement of assets in either option

- Previous ability to record changes in asset market value over a period not to exceed 5 years has been removed. Assets to be measured at fair market value

Measurement / Recognition principles under immediate recognition:

- Accrued benefit obligation determined based on most recent actuarial valuation prepared for funding purposes
- Recognize accrued benefit obligation, net of fair value of plan assets, if any, on the statement of financial position
- Recognize all actuarial gains and losses and past service costs in income when they occur (no smoothing)
- Excess of revenue over expenditures will be more volatile

NPO – Employee Future Benefits (cont'd)

Disclosure:

Reduced from previous requirements, limited to:

- A general description of each type of plan
- The fair value of plan assets, accrued benefit obligation and plan surplus or deficit at the end of the year
- An explanation of any differences between amount recognized in the statement of financial position and the plan surplus or deficit at year end, including the amount of any valuation allowance
- The effective date of the most recent actuarial valuation for funding purposes
- The nature and effect of significant changes in the contractual elements of the plans

NPO – Financial Instruments

Measurement/Recognition Principles

- New Section 3856 Financial Instruments
- Equity instruments quoted in an active market and free standing derivatives are carried at fair value
- All other financial instruments are carried at cost or amortized cost
- Option to record any financial instrument at fair value – irrevocable election on initial recognition
- Fair value adjustments through income, with the exception of endowments

NPO – Financial Instruments (cont'd)

Measurement/Recognition Principles (cont'd)

Transaction costs

- Capitalize transaction costs for instruments carried at cost or amortized costs
- Expense transaction costs for instruments carried at fair value

Simplified hedging model but restricted application

- Where contract terms match (i.e. no ineffectiveness), e.g. interest rate swaps and foreign currency contracts
- Hedge must be designated for hedge accounting on inception of the hedging relationship
- Note disclosure with no need to establish or disclose FV of hedging instrument

NPO – Financial Instruments (cont'd)

Impairment loss is recognized when:

There are indicators of impairment

and

The carrying amount > the highest of:

- PV of the future cash flows
- Net selling price
- Net proceeds from collateral

NPO – Financial Instruments (cont'd)

Disclosure

Reduced from previous requirements:

- Disclose information that enables users of your financial statements to evaluate the significance of financial instruments
- Disclose carrying amounts, either on the statement of financial position or notes for:
 - Financial assets measured at amortized cost
 - Financial assets measured at fair value
 - Investments in equities measured at cost less impairment

NPO – Financial Instruments (cont'd)

Reduced from previous requirements (cont'd):

Financial liabilities disclosures are similar

Items of income include:

- Net gains or net losses recognized on financial instruments
- Total interest income
- Total interest expense

Risks and uncertainties:

- For each significant risk arising from financial instruments disclose the exposures to risk, how they arise and any change in risk exposures from the previous period

NPO – Asset Retirement Obligations

Measurement/Recognition principles:

- Measure Asset Retirement Obligations at management's best estimate

Transition election:

- If Asset Retirement Obligations not previously recognized, may measure obligation at date of transition and estimate amount to be included in the carrying amount of the related assets, based on the original and remaining life of the assets, with difference charged to net assets

NPO – Intangible Assets

New Handbook Section 4432 – Intangible assets held by not-for-profit organizations

- **Accounting for intangible asset acquired and developed by a not-for-profit organization**
 - Such as costs related to a series of plays, concerts, gallery exhibitions, etc.
- **Applicable for write down of intangible assets**
 - If no longer has any long-term service potential, the asset is to be written down to residual value (if any)
- **Contributed intangible assets would be recognized at fair value if determinable; otherwise at a nominal amount**
 - Disclosure of contributed assets
- **Part II, Section 3064, of the CICA Handbook is applicable for items not addressed in this section**
 - Reference to 3064.51 which discusses selling, administration and overhead costs

NPO – Transitional Principles

New Handbook Section 1501 – First-time adoption by not-for-profit organizations

General approach is retrospective application at transition date unless exempted

- Optional elections (to retrospective application)
- Mandatory exceptions (to retrospective application)

Estimates shall be consistent with historical estimates (hindsight cannot be used)

NPO – Transitional Principles (cont'd)

Optional Elections include:

Fair value

- *Can elect to measure items of capital assets at fair value on date of transition and use that as deemed cost*

Employee future benefits

- *Can elect to recognize all cumulative actuarial gains and losses at the date of transition, including any transitional amounts*

Financial instruments

- *Can elect to record any differences at the date of transition*
- *Can designate any financial asset or liability to be measured at fair value at the date of transition*

Asset retirement obligations

- *Can elect to recognize all asset retirement obligations at the date of transition*

Cumulative Translation Differences

- *Can elect to reset Cumulative translation adjustments to zero on date of transition*

Business combinations (HB 1582 et al)

- *Can elect to not apply Business Combinations, section 1582, to business combinations before transition date.*

NPO – Transitional Principles (cont'd)

Exceptions to retrospective application of standards

- Derecognition of financial assets and financial liabilities
- Hedge accounting
- Estimates (cannot use hindsight)
- Non-controlling interests

NPO – Transitional Disclosure

Disclosure Issues

Requirements for 3 columns on the statement of financial position

- Current year
- Comparative year
- Transition date (beginning of comparative year)

No change to statement of operation format but figures will be restated to new accounting policies

Mandatory Disclosures in year of adoption, reconciliation to previously reported amounts for:

- Opening net assets or fund balance
- Excess of revenue over expenses comparative year
- Material adjustments to cash flows

NPO – Transitional Principles

Year End

December

March

Conversion Date

Dec. 31, 2012

March 31, 2013

Present:

Statement of Financial Position

*Jan. 1, 2011 **

*April 1, 2011**

*Dec. 31, 2011 **

*March 31, 2012 **

Dec. 31, 2012

March 31, 2013

Statement of Operations

*Dec. 31, 2011 **

*March 31, 2012 **

Dec. 31, 2012

March 31, 2013

** Restated in accordance with Parts II and III of the new CICA Handbook*

NPO – Sample Proposed Statement of Financial Position

CANADIAN NOT FOR PROFIT ORGANIZATION

Statement of Financial Position

March 31, 2013, with comparative figures for March 31, 2012 and April 1, 2011

	<u>March 31, 2013</u>	<u>March 31, 2012</u>	<u>April 1, 2011</u>
Assets			
Current assets:			
Cash	\$xx	\$xx	\$xx
Accounts receivable	xx	xx	xx
Grants receivable	xx	xx	xx
Prepaid expenses	xx	xx	xx
Intangible assets	xx	xx	xx
	<u>xx</u>	<u>xx</u>	<u>xx</u>
Investments	xx	xx	xx
Capital assets	xx	xx	xx
	<u>\$xx</u>	<u>\$xx</u>	<u>\$xx</u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable and accrued liabilities	\$xx	\$xx	\$xx
Deferred revenue	xx	xx	xx
Current portion of long term liabilities	xx	xx	xx
	<u>xx</u>	<u>xx</u>	<u>xx</u>
Long term liabilities	xx	xx	xx
Deferred capital contributions	xx	xx	xx
Net assets			
Internally restricted	xx	xx	xx
Externally restricted	xx	xx	xx
Unrestricted	xx	xx	xx
	<u>xx</u>	<u>xx</u>	<u>xx</u>
	<u>\$xx</u>	<u>\$xx</u>	<u>\$xx</u>

NPO – Sample Disclosure on Change to Net Assets

(March 31, 2011 → April 1, 2011)

a) Net assets:

The following is a summary of the standards that were applied retrospectively to the Organization's opening statement of financial position on April 1, 2011 and the impact to opening Net Assets:

As previously reported March 31, 2011	\$ xxx
Transition election to recognize all cumulative actuarial gains and losses on employee future benefits	xxx
Remeasurement of Asset Retirement obligations	xxx
	\$ xxx

NPO – Sample Disclosure on Restatement of 2012 Statement of Operations

b) Excess of revenue over expenditures:

As a result of the above noted elections and the retrospective application of the new standards, the Organization recorded the following adjustments to excess of revenue over expenditures for the year-ending March 31, 2012.

As previously reported for year ended March 31, 2012	\$ XXX
Decrease to Employee future benefit expense as a result of electing to recognize all cumulative actuarial gains and losses	xxx
Decrease to investment income as a result of unrealized losses on investments	xxx
Decrease to accretion expense for Asset Retirement obligation as a result of re-measurement	xxx
	<hr/>
	\$ XXX

NPO – Action Plan

Select Transition date

Consider first-time adoption elections

- Any capital assets to be recorded at fair market value
- Employee future benefits – consider cumulative gains losses through equity
- Financial instruments – consider any differences through equity
- Cumulative translation differences (if any) and determine if adjust on transition
- Business Combinations – review any investments and determine if election to be made
- Asset retirement obligations – determine if any not recorded and consider adjusting on transition

NPO – Action Plan (cont'd)

Select among accounting policy options, including

- Immediate recognition approach to employee future benefits
- Identify any financial instruments, other than equity instruments, determine current accounting and consider fair value option
- Identify hedges and determine if hedge accounting was used in the past, and if so, consider if critical terms match to continue hedge accounting
- Review investment transactions costs and ensure appropriately expensed or capitalized
- Review any intangible assets to determine if appropriately recorded
- Consider if any existing contracts need to be amended
- Restate most recent financial statements
- Restate notes to financial statements to determine if information is available



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Government Not-for-Profit Organizations

GNPO

Government not-for-profit organizations

Choice of:

- Public Sector Accounting (PSA) Handbook supplemented by standards unique to not-for-profit organizations (the 4200 series – the former 4400 series)

OR

- Public Sector Accounting Handbook



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GNPO – Changes Applicable to All

What are the differences between PSAB and Current NPO Accounting?

- **Certain accounting standards**

 - Revenue recognition and Deferred Capital Contributions (“DCCs”)

 - Employee future benefits

 - Financial instruments

 - Reporting entity and requirement to consolidate

 - Intangible Assets

- **FS presentation**

- **FS note disclosures**

- **Other areas without specific PSAB guidance**

- **Performance measures**

GNPO – Changes Applicable to All

Topic	Handbook reference
Employee future benefits	PS 3250 PS 3255
Financial instruments and foreign currency translation	Exposure drafts
Controlled profit related investments	PS 3070
Segment disclosures	PS 2700
Asset retirement obligations	PS 1000.58 PS 1200.65
Intangible assets	PS 4230.05 (c) PS 1000.58 PS 4230.14 PS 1200.65
Statement of cash flows	PS 1200
Transition Elections	PS 2125

Employee Future Benefits

• NPO

- Section 3461, *Employee Future Benefits*
- For defined benefit plan, “corridor approach” is permitted, which allows actuarial gains and losses to be recognized immediately
- Sick pay benefits that do not vest are not accrued as liability

• PSAB

- PS 3250, *Retirement Benefits*, and PS 3255, *Post-employment Benefits, Compensated Absences and Termination Benefits*
- For defined benefit plan, no “corridor approach” permitted. Actuarial gains and losses are amortized and recognized over a longer period of time
- Also, a different discount rate is used in the determination of the accrued employee benefit
- Sick pay benefits that do not vest would be recorded as a liability unless circumstances indicate that it is not significant or may not otherwise be justified

Financial Instruments

• NPO

- Financial instruments are categorized and measured at their fair value or amortized cost, depending on their categorization
- Unrealized gains and losses on valuation adjustments are recorded in the income statement, except Available for Sale instruments
- Includes concept of Other Comprehensive Income, where by certain valuation adjustments are recorded directly to net assets

• PSAB

- Two Exposure Drafts - measurement and presentation. Responses were due January 17, 2011; new standards anticipated to be finalized in March 2011.
- Equity instruments and free standing derivatives carried at fair value
- Other instruments at cost or amortized cost
- Option to carry any instrument at fair value (irrevocable election)
- **NO HEDGE ACCOUNTING**
- New statement of measurement gains and losses

GNPOs – Controlled Profit Related Investments

Controlled profit related investments

Controlled by GNPO that meet the criteria of a government business enterprise (GBE)

Definition of Government Business Enterprise

- Power to contract in their own name
- Can sue and be sued
- Are delegated the financial and operational authority to carry on a business
- Sell goods and services outside the government reporting entity as their principal activity
- In the normal course of operations, maintain their operations and meet their liabilities from revenue received outside the government reporting entity
- If Controlled by GNPO – the investment would follow International Reporting Standards (IFRS)
- The GNPO would report the investment in the GBE using the modified equity method, without conforming to the policies of the GNPO
- GNPO with 4200 can elect either modified equity or consolidation

GNPOs – Controlled Profit Related Investments (cont'd)

Controlled profit related investments

- Controlled by GNPO that do not meet the criteria of a government business enterprise (GBE)
- If controlled by GNPO – the investment would follow PSA Handbook and will determine whether they are an OGO or a GNPO

GNPOs – Segment Disclosures

Segment Disclosures PS 2700

Definition of a segment

- Distinguishable activity or group of activities
- Appropriate to separately report financial information

Basis of segmentation include one or more of

- Functional classifications
- Service line segments
- Accountability and control relationships

Per 2700.02

- These standards apply to government financial statements.
- Other government organizations that apply the standards of the CICA Public Sector Accounting Handbook (CICA PSA Handbook) are encouraged to provide the disclosures established in this Section when their operations are diverse enough to warrant such disclosures.

GNPOs – Segment Disclosures continued

Segment Disclosures PS 2700

Disclosures include

- Basis for identification;
- Nature of segments and activities;
- Method used for allocations;
- Segment expense by major object or category;
- Segment revenue by source and type; and
- Reconciliation to financial statements.

Other disclosures include

- Assets by segment;
- Liabilities by segment;
- Tangible capital assets by segment; and
- Additions to tangible capital assets by segment.
- Other significant elements by segment

GNPO – Asset retirement obligations

- No PSA equivalent to Section 3110
- Nonetheless, many AROs will meet the definition of a liability
- Fair presentation requires recognition of liabilities that meet the recognition criteria
- PS 1150 includes provisions that apply when a matter is not addressed in a primary source of GAAP

GNPO – Intangible Assets

GNPO with 4200

Referred to in PS 4230 but no specific details

GNPO with PSA

PS 1000.58 and PS 1200.065

- All intangible assets, are not recognized as assets in government financial statements.

PS 3150.05

- Computer software is considered a tangible capital asset

GNPO – Statement of Cash Flows

Statement of Cash Flows

- Categories are operating, capital, investing and financing
- Application of cash flows for capital purposes is distinguished from investing activities
- The direct method is encouraged



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GNPO – Who Elects PSA Plus 4200

GNPO – PSA Plus 4200

New		Replaces
PS 4200	Financial statement presentation	4400
PS 4210	Contributions, revenue recognition	4410
PS 4220	Contributions receivable	4420
PS 4230	Capital assets	4430
PS 4240	Collections	4440
PS 4250	Reporting controlled and related entities	4450
PS 4260	Disclosure of related party transactions	4460
PS 4270	Disclosure of allocated expenses	4470

GNPO – PSA Plus 4200

Changes to the standards unique to government not-for-profit organizations (the 4200 series)

- Modified equity method whereby investee's accounting policies are not conformed to the policies of the investor

GNPO – PSA Plus 4200

Other standards, applicability included in the introduction to PS 4200 chart

PS 1200 Financial statement presentation applies only to statement of cash flows

- Thus no requirement to include budget
- No requirement to also disclose expenses by object if statement of operations is by function



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GNPO – Who Elects PSA, Without 4200

PSAB vs. 4400 Series – what may be impacted?

Financial statement presentation

Contributions, revenue recognition and contributions receivable

Capital Assets (4400) vs. Tangible Capital Assets (PSAB)

Collections, including works of art and historical treasures

Disclosure of related party transactions

Disclosure of allocated expenses

GNPO – PSA

Topic	Handbook reference
Financial statement presentation	PS 1200
Reporting entity	PS 1300
Government transfers	PS 3410
Tangible Capital assets	PS 3150
Capital lease accounting	PSG 2 and PSG 5

Financial Statements

- **NPO**

Section 4400:

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flows

- **PSAB**

PS 1200:

- Statement of Financial Position
- Statement of Operations
- Statement of Changes in Net Financial Assets (Net Debt)
- Statement of Cash Flows

GNPO – PSA - Statement of Financial Position

Statement of Financial Position

- Financial assets presented separately and apart from non-financial assets
- Net financial assets (net debt) is net financial assets less liabilities
- Non-financial assets are shown below net debt
- Accumulated Surplus/deficit is the sum of net debt plus non-financial assets
- Segregation of Accumulated surplus/deficit is not allowed on the face of the statement of financial position. It is permitted, but not required, in the notes to the financial statements
- Statement does not segregate between current and long term amounts

GNPO – PSA - Statement of Financial Position

CANADIAN GOVERNMENT NOT FOR PROFIT ORGANIZATION

Statement of Financial Position

March 31, 2013, with comparative figures for March 31, 2012

	<u>March 31, 2013</u>	<u>March 31, 2012</u>
Financial assets		
Cash	\$xx	\$xx
Accounts receivable	xx	xx
Grants receivable		
Investments	xx	xx
	<u>xx</u>	<u>xx</u>
Liabilities		
Accounts payable and accrued li:	xx	xx
Deferred revenue	xx	xx
Long term liabilities	xx	xx
	<u>xx</u>	<u>xx</u>
Net financial assets (net debt)	(xx)	(xx)
Non-financial assets		
Prepaid expenses	xx	xx
Tangible capital assets	xx	xx
	<u>xx</u>	<u>xx</u>
Accumulated surplus	\$xx	\$xx

GNPO – PSA - Statement of Operations

Statement of Operations

- Budget figures are presented
- Expenses are included by function or major program in this statement (note that disclosure is required in the notes by object)
- In some cases, revenues and expenses displayed net in this statement but the gross amounts are disclosed

GNPO – PSA - Statement of Operations

CANADIAN GOVERNMENT NOT FOR PROFIT ORGANIZATION

Statement of Operations

March 31, 2013, with comparative figures for March 31, 2012

	<u>Budget</u>	<u>2013</u>	<u>2012</u>
Revenue			
Government grant	\$xx	\$xx	\$xx
Service revenue	xx	xx	xx
Investment income	xx	xx	xx
	xx	xx	xx
Expenses			
by function	xx	xx	xx
or	xx	xx	xx
major program	xx	xx	xx
	xx	xx	xx
Annual surplus	(xx)	(xx)	(xx)
Opening accumulated surplus	xx	xx	xx
Closing accumulated surplus	\$xx	\$xx	\$xx

GNPO – PSA - Statement of Net Financial Assets (Net Debt)

Statement of Net Financial Assets (Net Debt)

- Budget figures are presented
- Includes acquisition and amortization of tangible capital assets and other significant items explaining the difference between annual surplus/deficit and the change in net financial assets (net debt)

GNPO – PSA - Statement of Net Financial Assets (Net Debt)

CANADIAN GOVERNMENT NOT FOR PROFIT ORGANIZATION
 Statement of Net Financial Assets (Net Debt)
 March 31, 2013, with comparative figures for March 31, 2012

	<u>Budget</u>	<u>2013</u>	<u>2012</u>
Annual surplus			
Acquisition of tangible capital assets	\$xx	\$xx	\$xx
Amortization of tangible capital assets	xx	xx	xx
Other adjustments	xx	xx	xx
Increase (decrease) in net financial assets (net debt)	xx	xx	xx
Opening net financial assets (net debt)	xx	xx	xx
Closing net financial assets (net debt)	\$xx	\$xx	\$xx

Consolidation

• NPO

- Section 4450, *Reporting Controlled and Related Entities by Not-for-profit Organizations*
- Current NPO standards provide a choice to either consolidate controlled NPO entities OR provide specific disclosures only, which includes effectively reproducing the controlled entity's balance sheet, income statement and cash flow statement in summary form

• PSAB

- PS 1300, *Government Reporting Entity*, PS2500, *Basic Principles of Consolidation*, and PS 3070, *Investments in Government Business Enterprises*
- The determination of controlled entities could differ due to different criteria applied
- Under PSAB, controlled entities, other than Government Business Enterprises ("GBEs"), are consolidated on a line-by-line basis using the same basis of accounting (PSAB Handbook)
- GBEs are accounted for using the modified equity basis without adjusting to conform to PSAB Handbook

For other than government business enterprises

- Line by line consolidation for controlled organizations
- Non-controlling interest, proportionate consolidation

Government business enterprises recorded using modified equity

Disclosure requirements

- Details of relationship and purpose of controlled entity
- If equity accounted and not consolidated,
 - Details of assets, liabilities, revenues, expenses and cash flows
 - Significant differences in accounting policies

Revenue Recognition

• NPO

- Section 4410, *Contributions – Revenue Recognition*, outlines recognition criteria and methods – deferral method or restricted fund method
- Generally, matches timing of recognition so that revenue and expenses are recognized together in the same period
- For capitalized costs, DCCs represent amount carried forward to be matched against future amortization expense

• PSAB

- PS 1000, *Financial Statement Concepts*, defines revenues, including gains as:
 - “increases in economic resources, either by way of increases of assets or decreases of liabilities, resulting from the operations, transaction and events of the accounting period.
 - Revenues, other than gains, can arise from: taxation; the sale of goods; the rendering of services; the use by others of government economic resources or yielding or rent, interest royalties or dividends; or receiving contributions such as grants, donations and bequests.”
- There are no provisions to defer recognition for matching purposes and capital grants will be recognized when received
- See discussion on Government Transfers

Government Transfers

- PS 3410 has changed effective for years commencing on or after April 1, 2012
- Early adoption is encouraged
- The new standards may be applied retroactively or prospectively
- Transfers include monetary assets and tangible capital assets
- PS 3410 applies to transfers that are non-exchange transactions

GNPO – PSA Government Transfers (cont'd)

Issue

Transferor

Recipient

- Operating and Capital

Capital: Recognition
in revenue **when a
liability is recognized**

Capital: Recognition
in revenue **when a
liability is NOT
recognized**

Approach

Recognize expense when authorized and eligibility criteria, if any, have been met by the recipient.

Revenue in the period transfer is authorized and eligibility criteria, if any, have been met by the recipient, except when and to the extent that the transfer gives rise to a liability under PS3200.

Recognize in revenue when, and in proportion to how, the liability is settled.

Recognize in revenue.

GNPO – PSA Government Transfers (cont'd)

Key is liability characteristics:

- Embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation
- 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
- The transactions or events obligating the government have already occurred
- Liabilities can be legal, constructive or equitable

Constructive and Equitable Obligations

- Significant professional judgment required to determine if the entity has “little or no discretion”
- Must consider whether the entity has created a valid expectation among others and, as a result, has no realistic alternative but to settle its obligation.
- Preponderance of evidence:
 - The entity acknowledges and indicates it will act upon its decision to accept responsibility for the obligation; and
 - The entity has sufficiently communicated its decision to the affected parties.

GNPO – PSA Government Transfers (cont'd)

A liability may arise in relation to:

- An operating transfer
- A capital transfer for the purpose of acquiring/developing a capital asset
- A capital transfer for the purpose of acquiring /developing a capital asset to be used to provide service for a number of years
- A transfer of capital assets to be used to provide service for a number of years

Tangible Capital Assets

Similarities:

- Capital assets are capitalized and amortized over their useful lives (from date of acquisition)
- Capital contributions are presented as revenues rather than reductions of net capital costs
- Contributed TCAs are recorded at fair value at date of contribution. When an estimate of fair value cannot be made, record at nominal value
- Criteria to determine whether a write down of TCA values for impairment similar to current NPO standards

Differences:

- Requirement to show the continuity of additions, disposals and other changes during the year, not simply year-end balances
- Works of art and historical treasures are specifically excluded from TCAs whereas under NPO standards it is not precluded (but also not required)
- Intangible assets are not recognized under PSAB

GNPO – PSA

Capital lease accounting

PSG-2

- Public Sector lessees consider additional criteria when evaluating whether the lease transfers the ‘risks and benefits’ of ownership to the lessee

PSG-5

- Sale-Leaseback accounting adopts a components approach that assumes the sale and leaseback can be separated objectively by comparing the terms and conditions agreed upon to related fair value information



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GNPO – Transitional Requirements

First time adoption

- **Guidance for entities adopting PSAB standards for the first time is located in PS2125, *First-time Adoption by Government Organizations*.**
- **Generally requires retroactive restatement upon adoption, with following exemptions:**

May elect no retroactive treatment for:

Retirement and post-retirement benefits

Business combinations

Investments in government business enterprises

Government business partnerships

Tangible capital asset impairment

Must not apply retroactive treatment for:

Some aspects of hedge accounting

Accounting estimates – NO HINDSIGHT

- **Adjustments through net assets or fund balance at date of transition**
- **Estimates shall be consistent with historical estimates (hindsight cannot be used)**

GNPO – Transitional Principles (cont'd)

Optional Elections include:

Retirement and post-employment benefits

- Can elect to delay application of the new discount rate until the sooner of date of the next actuarial valuation or three years of transition date.
- Can elect to record all cumulative gains and losses from inception to date of transition into accumulated surplus

Business combinations

- Can elect to not apply Business Combinations, section PS 2510, to business combinations before transition date. Must be consistently applied to all business combinations.

Investments in government business enterprises

- Can elect not to apply modified equity method to government business enterprises before the transition date. Must be consistently applied to all government business enterprises

Government business partnerships

- Can elect not to apply modified equity method to government business partnerships before the transition date. Must be consistently applied to all government business partnerships

Capital asset impairment

- Can elect to reassess past write-downs recorded prior to transition date and elect to adjust or not adjust to equity.

GNPO – Transitional Principles

Disclosure Issues

Requirements for three columns on the statement of financial position

- Current year
- Comparative year
- Transition date (beginning of comparative year)

No change to statement of operation

Mandatory disclosures in year of adoption, reconciliation to previously reported amounts for:

- Opening accumulated surplus/net assets
- Annual surplus/excess of revenue over expenses, comparative year
- Material adjustments to cash flows

Exemptions used

GNPO – Plus 4200

Transitional Principles

CANADIAN GOVERNMENT NOT FOR PROFIT ORGANIZATION

Statement of Financial Position

March 31, 2013, with comparative figures for March 31, 2012 and April 1, 2011

	<u>March 31, 2013</u>	<u>March 31, 2012</u>	<u>April 1, 2011</u>
Assets			
Current assets:			
Cash	\$xx	\$xx	\$xx
Accounts receivable	xx	xx	xx
Grants receivable	xx	xx	xx
Prepaid expenses	xx	xx	xx
Intangible assets	xx	xx	xx
	xx	xx	xx
Investments	xx	xx	xx
Capital assets	xx	xx	xx
	\$xx	\$xx	\$xx
Liabilities and Net Assets			
Current liabilities			
Accounts payable and accrued liabilities	\$xx	\$xx	\$xx
Deferred revenue	xx	xx	xx
Current portion of long term liabilities	xx	xx	xx
	xx	xx	xx
Long term liabilities	xx	xx	xx
Deferred capital contributions	xx	xx	xx
Net assets			
Internally restricted	xx	xx	xx
Externally restricted	xx	xx	xx
Unrestricted	xx	xx	xx
	xx	xx	xx
	\$xx	\$xx	\$xx

GNPO – PSA

Transitional Principles

CANADIAN GOVERNMENT NOT FOR PROFIT ORGANIZATION

Statement of Financial Position

March 31, 2013, with comparative figures for March 31, 2012 and April 1, 2011

	<u>March 31, 2013</u>	<u>March 31, 2012</u>	<u>April 1, 2011</u>
Financial assets			
Cash	\$xx	\$xx	\$xx
Accounts receivable	xx	xx	xx
Grants receivable			
Investments	xx	xx	xx
	<u>xx</u>	<u>xx</u>	<u>xx</u>
Liabilities			
Accounts payable and accrued liab	xx	xx	xx
Deferred revenue	xx	xx	xx
Long term liabilities	xx	xx	xx
	<u>xx</u>	<u>xx</u>	<u>xx</u>
Net financial assets (net debt)	<u>(xx)</u>	<u>(xx)</u>	<u>(xx)</u>
Non-financial assets	xx	xx	xx
Prepaid expenses	xx	xx	xx
Tangible capital assets	xx	xx	xx
	<u>xx</u>	<u>xx</u>	<u>xx</u>
Accumulated surplus	<u>\$xx</u>	<u>\$xx</u>	<u>\$xx</u>

GNPO – Sample Disclosure on Change to Accumulated Surplus

(March 31, 2013 → April 1, 2011)

a) **Accumulated surplus:**

The following is a summary of the standards that were applied retrospectively to the Organization's opening statement of financial position on April 1, 2011 and the impact to opening accumulated surplus:

As previously reported March 31, 2011	\$ xxx
Transition election to recognize all cumulative actuarial gains and losses on employee future benefits	xxx
Other	xxx
	\$ xxx

GNPO – Sample Disclosure on Restatement of 2012 Statement of Operations

b) Annual surplus:

As a result of the above noted elections and the retrospective application of the new standards, the Organization recorded the following adjustments to annual surplus for the year-ending March 31, 2012.

As previously reported for the year ended March 31, 2012	\$ xxx
Decrease to Employee future benefit expense as a result of electing to recognize all cumulative actuarial gains and losses	xxx
Other	xxx
	<u>\$ xxx</u>

GNPOs PSA Action Plan

Select Transition date

Consider first time adoption elections

- Capital asset impairment – consider whether to write down impairment prior to transition
- Employee future benefits – consider cumulative gains losses through equity
- Employee future benefits – consider deferral of new discount rate until next actuarial valuation
- Business Combinations – review any investments and determine if election to be made
- Investment in government business enterprises – consider not applying modified equity until transition date
- Investment in government business partnership – consider not applying modified equity until transition date

GNPOs PSA – Action Plan (cont'd)

Employee future benefits

- Determine if corridor method was used and prepare for adjustment
- Review plans and determine if any benefits exist for benefits that accumulate but do not vest
- Contact actuary and determine information required to value this liability
- Determine if any prior year plan amendments should be adjusted

Review for controlled organizations.

- Determine category of investment; GNPO, GBE, OGO
- Determine accounting with GNPO statements either consolidation, equity
- Identify method of reporting in financial statements
- Review of necessary and available information

GNPOs PSA – Action plan (cont'd)

Financial Instruments

- **Watch for issue of financial instrument standards and subject to the policies**
- Identify any financial instruments, other than equity instruments, and consider fair value option
- Identify hedges where hedge accounting was used in the past for adjustment
- Review investment transactions costs and ensure appropriately expensed or capitalized
- Review contracts for any embedded derivatives in contracts and quantify
- Consider transitional election with any differences through equity

Government Transfers

- **Watch for issue of government transfers standards and subject to the policies**
- Consider application retroactive or prospective
- Review for any contributions of tangible capital asset were recorded at nominal value not recorded at fair value
- Review government transfers currently included in deferred capital contributions and review documents to determine is liability treatment is appropriate.

GNPOs PSA – Action Plan (cont'd)

- Review any asset retirement obligations and determine if meets the retirement of a liability
- Move computer software from intangible asset to capital assets
- Review any capital leases and determine if assessment as a capital lease is appropriate
- Review for items other than government transfers included in deferred capital contributions for possible adjustment
- Review for any intangible assets for write off
- Consider if any existing contracts need to be amended
- Consider need to reporting segmented information and determine availability of information
- Restate most recent financial statements
- Restate notes to financial statements to determine if information is available

Other Areas Without Specific PSAB Guidance

- Current Canadian GAAP has accounting standards, which are followed by NPOs, that are not addressed in PSAB
 - Asset retirement obligations
 - Disposal of long-lived assets
 - Inventories
 - Capital leases as a lessor
 - Non-monetary transactions
 - Current assets and liabilities
 - Discontinued operations

Performance Measures

- **Under current legislation, Crown corporations and Crown agencies are required to meet performance targets, including maintaining positive equity.**
- **Meeting the targets may be more of a challenge, given the increased volatility of earnings due to capital grant revenue recognition changes**
- **Capital grant revenues may be recognized when spent vs. amortization which will be recognized over the life of the asset**
- **Amortization of actuarial gains/losses on employee future benefits will increase.**
- **Financial instruments will be recorded at amortized cost, therefore less fair value adjustments while investments are held, but more significant gains/losses on disposal.**
- **Fair value adjustments for available for sale instruments will be recorded in the income statement and not as a component of net assets.**

Take Away Points

- **This is more than simply a change in the way a few items are accounted for**
- **Will likely require significant training of finance dept staff who are unfamiliar with ASPE / PSAB standards**
- **Possibly significant changes in IT**
- **Timing is important due to requirements to prepare budgets for multiple future periods and to have appropriate comparative figures for year of adoption**
- **Your auditors will be a valuable resource**

Questions?

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