



December 12, 2013

Peter Martin, Director  
Accounting Standards Board  
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Tim Beauchamp, Director  
Public Sector Accounting Board  
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**RE: Proposed Statement of Principles, Improvements to Not-for-Profit Standards (April 2013)**

Dear Mr. Martin and Mr. Beauchamp:

The Ontario Nonprofit Network (ONN) is the convening network for the 46,000+ nonprofit organizations across Ontario. With a 7,000-strong provincial network, ONN provides leadership and supports public benefit nonprofits on cross-cutting policy and regulatory issues. We are writing to express our serious concerns with new accounting standards being proposed for the nonprofit sector and to draw your attention to the negative impact they will have on the ability of nonprofit organizations to undertake their work effectively and honour their commitments to transparency and accountability.

The not-for-profit sector is an *independent and volunteer-led sector* serving Ontarians alongside the public and private sectors. Ontario's 46,000+ nonprofits are a dynamic and "on-the-ground" workforce that supports active, vibrant and welcoming communities, and contributes 2.6% of Ontario's GDP and \$50 billion in economic impact. Over 20,000 of these nonprofits are run by volunteers and have few assets. The majority of sector organizations have diversified income streams with 45% coming from earned income (such as fees for service and sales), with 29% from different levels of government and 26% from donations, investments and other revenue sources.

We ask that the nonprofit sector have accounting principles and practices that facilitate and support the sector's community building work. This would enable the sector to continue to account for its funds in a clear and transparent manner that meets the needs of its funders and donors. The nonprofit sector's operations, revenues and work are significantly different from business operations. Businesses have flexibility in the use of their funds, whereas the nonprofit sector often does not. Donor and government funds often come with restrictions on how and where monies are spent.

We appreciate this opportunity to provide feedback and reflect what we have heard from across the sector, through our 7,000-strong network. Imagine Canada, with the assistance of a working group of accounting experts and nonprofit sector leaders, has prepared a technical brief in response to this consultation. We agree with the concerns raised in their brief and ask you to give serious consideration to the issues they raise.

In particular, we would like to bring to your attention our response to proposed changes:

**1. Retain the exemption for organizations with revenues of \$500,000 and under from having to amortize their assets.**

We ask that proposed changes retain the exemption for small organizations from amortizing tangible capital assets. While we appreciate the objective to have common rules, the additional work involved will create undue burden for these small not-for-profit organizations.

We do not believe that volunteer led and run organizations operating on very small budgets have assets that are significant enough to require amortization. More than half of the ONN network has annual revenues under \$100,000 and many have expressed serious concern about their capacity to reliably track amortization across the years, relying on different volunteers who may be involved in managing this.

## **2. Maintain the deferral and restricted fund method of accounting.**

Eliminating the deferral and restricted fund method of accounting will require that *endowments and capital grants* be entered as revenue immediately upon receipt, instead of being listed as an asset and/or deferred against a capital project. This will have a detrimental impact on the transparency of financial statements and seriously complicate reporting to funders and donors.

Funders look closely at nonprofit revenues and require organizations to keep capital funds, endowments and special project funds separate from operating funds. Bringing these funds into revenues will make sector financial statements less clear, and provide false impressions of financial well-being, further complicating financial reporting.

The proposed changes to the deferral and restricted fund method of accounting will not assist the sector in undertaking its work in a transparent and accountable manner. We ask that the current standards and principles be retained.

## **3. Do not require report expenses by both object and function.**

The new standards would require reporting expenses in two ways: by object, and by function. Currently organizations can select which method they wish to use to report expenses and we believe this choice should not be removed. Comparable businesses are not required to report in two ways. The selected method is often influenced by the needs of funders and the complexity of the organization's chart of accounts. Many organizations have separate programs that are tracked for funders and donors, and adding the requirement to report in two different formats in consolidated audited statements adds considerable administrative responsibility, especially for smaller organizations.

## **4. Do not require the presentation of related organizations in a consolidated statement.**

The Charities Division of the Canadian Revenue Agency has strict rules about the separation of these different entities. The new standards would contravene this by requiring that *related organizations* be presented in a consolidated statement, instead of listing related organizations. In the nonprofit sector related organizations are often different types of corporations with different roles and requirements. These could include charities, not-for-profit organizations and/or for-profit corporations. Consolidating these corporations into a single financial statement will create confusion for funders and donors.

Preparing consolidated statements would be tremendously complicated and the statements themselves will be misleading and confusing. We recommend that preparation of consolidated statements should be optional and not mandatory.

As the Standards are currently proposed, they will seriously hinder the ability of nonprofits to effectively report to, and communicate with, the major readers of their statements. They will place a significant additional administrative burden on the sector while harming sector accountability and transparency. These standards do not support the operating principles of the nonprofit sector, nor recognize our binding relationships with donors, funders and our communities.

We strongly urge that careful consideration be made to the recommendations above and that the Standards Board work with sector leaders in devising accounting standards that meet our unique reporting needs. ONN would be pleased to assist in the development of standards that effectively fulfill financial reporting requirements while respecting the vital public benefit work that nonprofits provide to communities across the country.

Sincerely,



Jini Stolk  
Chair, Steering Committee  
Ontario Nonprofit Network



Cathy Taylor  
Executive Director  
Ontario Nonprofit Network