

Non-Profit Financial Statements

November 3, 2020



BUCKBERGER BAERG
& PARTNERS LLP
CHARTERED PROFESSIONAL ACCOUNTANTS





Kathryn Bankowski, CPA
Buckberger Baerg & Partners LLP



Nancy Hopkins, Q.C., (Hon) CPA
McDougall Gauley LLP



BUCKBERGER BAERG
& PARTNERS LLP
CHARTERED PROFESSIONAL ACCOUNTANTS



Purpose

- To understand the various types of non-profits under the corporate and tax law
- To understand the common specific GAAP rules for non-profits
- To understand the purpose of reserves, how to monitor them and when to use them



Agenda

- Review
 - Types of GAAP
 - Audit vs. review vs. compilation
- Types of Non-Profits
 - Charitable vs. membership
 - Registered Charity vs. non-profit organization
- GAAP for Non-Profits
 - ASPE plus Accounting Standards for Not-for-Profit Organizations (ASNPO)
 - Or maybe Accounting Standards for Government Not-for-Profit Organizations
 - Restricted Fund vs. Deferral method
 - Fund Accounting
 - Common Accounting differences from for-profits
 - Going concern assumption
- Reserves
 - CRA's view
 - Purpose of reserves
 - Written policy



Review

- GAAP (generally accepted accounting principles)
 - International Financial Reporting Standards (IFRS) - mandatory for public companies
 - Accounting Standards for Private Enterprises (ASPE) – used primarily by private companies
 - Public Sector Accounting Standards – used primarily by government bodies
 - Accounting Standards for Not-For Profit Organizations – used for not-for profit organizations
- 4 levels of financial statements
 - Audited by independent auditor. Full notes and statement of cash flows. Done in accordance with GAAP
 - Reviewed by independent CPA – negative/limited assurance. GAAP.
 - Compilation (Notice to Reader) – no assurance. May or may not be GAAP – considered a bit of the “Wild West”
 - Management prepared/internal. May or may not be GAAP.



Taming the Wild West

- **Current Compilation Standard**
 - The current compilation standard was issued in 1987
 - Third party users are receiving documents that potentially have varying levels of documentation and work performed for their review
 - No communication on basis of accounting applied
- **New Compilation Standard – effective for year ends starting December 14, 2021**
 - Need to consider intended use of financial statements including whether it will be provided to third party users
 - Need to document basis of accounting used in preparation of statements
 - Increased level of work done on the engagement
 - Will result in more companies opting out of any type of financial statements prepared



Types of Non-Profits

Non-Profit Corporations Act

Charitable Corporation

Membership Corporation

Income Tax Act

Registered Charity

Non-Profit Organization



Types of Non-Profits

- Corporations vs. unincorporated entities
 - Corporations under The Non-Profit Corporations Act (NPA)
 - Charitable corporations
 - Membership corporations
 - Unincorporated entities
 - Trust (i.e. private charitable foundation)
 - Unincorporated association



Types of Non-Profits

- “Charitable Corporation” (NPA)
 - Activities primarily for the benefit of the public
 - Deemed if (s. 2(9))
 - Activities not primarily for benefit of members
 - Solicits donations from the public
 - Receives government grants >10% of income
 - Is a registered charity under the ITA
- “Membership Corporation” – activities primarily for the benefit of members



Types of Non-Profits

- Under s.149 of the Income Tax Act (ITA) – certain organizations don't pay tax under Part I.
 - Non-profit organizations s. 149(1)(l) etc.
 - Registered charity s.149(1)(f)
 - Either can be incorporated or not
- Charitable corporation under the NPA DOES NOT mean you are or are eligible to be a registered charity under the ITA



Types of Non-Profits

- For charitable corporation
 - NPA requires audit
 - Unless <\$250K in revenue
 - Then can resolve (majority vote) to do a review
 - If <\$25K in revenue
 - Can waive review IF
 - 80% vote including non-voting members
 - Advance notice of resolution with meeting notice



Types of Non-Profits

- For membership corporation
 - NPA requires audit
 - Unless members resolve (majority vote) to do a review
 - Can waive review IF
 - 2/3 vote including non-voting members
 - Advance notice of resolution with meeting notice



GAAP for Non-Profits

ASPE vs. ASNPO

- What standards apply to a non-profit organization?

Part II - ASPE

- Accounting Standards for Private Enterprises
- Guidance for all private enterprises

Part III – ASNPO

- Accounting Standards for Not-for-Profit Organizations
- III.10 A not-for-profit organization applying this Part of the Handbook also applies the standards for private enterprises in Part II of the Handbook to the extent that the Part II standards address topics not addressed in this Part.



GAAP for Non-Profits

ASNPO – 4400 section

- Financial Statement Presentation
 - **Fund accounting**
- **Revenue Recognition**
- Contributions Receivable
- Tangible Capital Assets/Intangible Assets
- Collections Held
- Controlled and Related Entities
- Related Party Transactions
- Allocated Expense



GAAP for Non-Profits

Fund Accounting

- Self-balancing set of accounts for each fund that is established by legal, contractual or voluntary actions of the organization
- Emphasizes accountability rather than profitability
- Examples of different funds are operating fund, capital fund, restricted funds, and endowment funds



GAAP for Non-Profits

Fund Accounting

- Operating fund – where daily activities of the organization are reported
- Restricted vs unrestricted
 - Internally restricted – imposed in a formal manner by the organization itself, usually by resolution of the board of directors
 - Ex. Board makes a motion to create a reserve accounts
 - Externally restricted – imposed from outside the organization, usually by the contributor of the resources
 - Ex. A specific project/initiative the organization is undertaking that requires separate tracking by an external party



GAAP for Non-Profits

Revenue recognition

“Contribution” as opposed to “revenue”

- Contribution – a non-reciprocal transfer to a not-for-profit organization of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities
- Revenue - resulting from the ordinary activities of an entity (earned)



GAAP for Non-Profits

Types of Contributions

- Restricted – subject to some externally imposed stipulations
- Endowment – subject to restrictions indicating that the resources be maintained permanently
- Unrestricted – neither restricted or endowment



GAAP for Non-Profits

Revenue Recognition for Contributions

- The revenue recognition policy chosen dictates how an organization accounts for each type of contribution
- There are two choices for this revenue recognition:
 - Restricted Fund Method
 - Deferral Method



GAAP for Non-Profits

Type of Contribution	Restricted Fund Method	Deferral Method
Restricted	<ul style="list-style-type: none"> In fund in which restriction is set up, otherwise default to deferral method 	<ul style="list-style-type: none"> Deferred and recognized when the restriction is fulfilled
Endowment	<ul style="list-style-type: none"> As revenue in endowment fund when received or receivable 	<ul style="list-style-type: none"> As increase in net assets and not in statement of operations
Unrestricted	<ul style="list-style-type: none"> When received or receivable in <u>general fund</u> 	<ul style="list-style-type: none"> When received or receivable



Going Concern

The Going Concern Assumption

- Financial statements are prepared on the going concern basis
 - Company will be able to continue in operation – realize assets and discharge liabilities in the normal course of operations for the foreseeable future
- Management would do an analysis which would look out for a period of time (usually 12 months)
- COVID has presented challenges to many organizations that contribute to going concern assumption
 - Funding sources cut back, fundraising initiatives on hold, lack of other revenue sources



Going Concern

The Going Concern Assumption

- If there is a material uncertainty on the organization's ability to continue to operate as a going concern:
 - Disclose the uncertainties in report and notes to financial statements
- If **not** prepared on a going concern basis
 - Disclose that fact
 - Disclose the basis of preparation (ie. on a windup/liquidation basis)
 - Disclose why
- Can be affected by subsequent events



Reserves for Non-Profits

- Established by the board of directors
- Can be for different reasons
 - To set funds aside for a specific project
 - To ensure funds are available to fulfill soft commitments
 - Example: balance required to fulfill the remaining two years of a three year funded research project
 - To provide a cushion for unexpected economic shocks
 - To provide funds to pay obligations if the organization is forced to shut down



Reserves for Non-Profits

Caution on the amount of reserves: must remain a non-profit organization or charity in the eyes of Canada Revenue Agency

- Tax exempt status for non-profits
 - Ensure reserves are reasonable
 - For an identified operating purpose or specific future capital project
- Charities: must devote resources exclusively to charitable activities



Reserves for Non-Profits

- Best Practice:
 - Have a written policy
 - Ensure conscious decision to access
- Amount of reserves
 - Often to ensure coverage for potential directors liabilities
 - Unpaid wages, severance costs, etc.
 - Also shutdown costs – lease payments and the like
 - Policy should specify reason and intended amount (often a proportion of annual operating costs)



Q&A

McDougall Gauley LLP

Nancy Hopkins, Q.C., (Hon) CPA, ICD.D

500 - 616 Main Street

Saskatoon, SK S7H 0J6

Telephone: 306.665.5440

Email: nhopkins@mcdougallgauley.com

Buckberger Baerg & Partners LLP

Kathryn Bankowski, CPA CA

210 – 616 Main Street

Saskatoon, SK S7H 0J6

Telephone: 306.657.8963

Email: kbankowski@bllp.ca



**BUCKBERGER BAERG
& PARTNERS LLP**
CHARTERED PROFESSIONAL ACCOUNTANTS

