

Not-for-Profits not Forgotten

The U.S. FASB and the Canadian AcSB are showing increased interest in setting accounting standards for not-for-profit reporting entities in the private sector.

As regular readers of this column know, changes to financial accounting and reporting standards occur frequently these days. Most of the changes that I write about are directed at for-profit (FP) reporting entities in the private sector. Not-for-profit (NFP) entities in the private sector, however, have certain accounting needs and capabilities that differ from those of FP entities. As standards-setting bodies come to better understand FP vs. NFP differences, their improved understanding shapes their agendas. In this month's column, I'll describe some significant actions recently taken by the U.S. Financial Accounting Standards Board (FASB) and the Canadian Accounting Standards Board (AcSB) with regard to NFP standards setting.

What NFPs Are—and Aren't

The uniqueness of private-sector NFP entities is often poorly understood, so I'll start by making four important distinctions. First, NFP entities in the private sector shouldn't be confused with NFP entities in the public sector. Stan-

dards setters often use the term *governmental* instead of *public-sector* to refer to reporting entities that are units of a national, local, or other government. Accordingly, the term *nongovernmental* is often used instead of private-sector to refer to other reporting entities. This column focuses specifically on nongovernmental NFPs.

The second distinction is between FP and NFP entities, which, for standards-setting purposes, tends to be more complex than you might imagine. For example, the Master Glossary of the FASB *Accounting Standards Codification*[™] (ASC) defines a nongovernmental NFP entity as one that possesses the following characteristics "in varying degrees" that distinguish it from a "business" entity:

- ◆ Contributions of significant amounts of resources from resource providers who don't expect commensurate or proportionate pecuniary return,
- ◆ Operating purposes other than to provide goods or services at a profit, and/or
- ◆ Absence of ownership interests like those of business entities.

The third distinction is that NFP status isn't the same as *tax-exempt* status. Depending on the

tax jurisdiction, a specific NFP entity may or may not be exempt from income taxes or other taxes. Furthermore, a specific FP entity might be exempt from some or all taxes. So *NFP* and *tax-exempt* clearly aren't synonymous terms.

The fourth distinction is that a nongovernmental entity's NFP status is independent of the entity's status as "public" or "nonpublic," which depends on whether the NFP entity has issued debt or other nonequity securities to the general public (or securities that now trade among the general public). NFP entities that have done so are typically subject to regulation by a national securities commission, such as the U.S. Securities & Exchange Commission (SEC), whereas NFP entities that haven't done so are typically subject to far less regulatory oversight.

NFP Standards Setting in the United States

The FASB sets authoritative financial accounting and reporting standards for nongovernmental U.S. entities. These standards, which comprise U.S. Generally Accepted Accounting Principles (GAAP), are in most instances applicable to both FP and NFP entities. Some provisions of U.S. GAAP, however,



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apply only to FPs, while other provisions apply only to NFPs. For example, under U.S. GAAP, both FP and NFP entities prepare a balance sheet (also known as a statement of financial position), a statement of cash flows, and accompanying notes. But NFP entities prepare a statement of activities rather than the income statement that FP entities prepare.

In 2009, the FASB established a Not-for-Profit Advisory Committee (NAC). The 17-member NAC serves as a standing resource for the Board to obtain input from the NFP sector regarding current GAAP, current and proposed standards-setting projects, and longer-term issues affecting NFP entities. The NAC also helps the FASB and its staff communicate to the NFP sector regarding these matters.

In February 2011, the NAC established three working groups to identify meaningful initiatives and to develop recommendations and alternatives for consideration by the full Committee. The working groups are:

- ◆ Reporting Financial Performance,
- ◆ Liquidity/Financial Health, and
- ◆ “Telling the Story.”

The Reporting Financial Performance working group will consider potential improvements to reporting financial performance via the statement of activities and statement of cash flows. The Liquidity/Financial Health working group will consider potential improvements that could be made to the balance sheet and/or the notes that accompany financial statements. And the “Telling the Story” working group will con-

sider potential improvements to financial reporting beyond the traditional NFP financial statements. Each working group will develop proposals for discussion at the next NAC meeting, which is scheduled for September 8-9, 2011, at the FASB’s offices in Norwalk, Conn.

NFP Standards Setting in Canada

The Canadian AcSB has chosen to set distinctly different standards for different types of nongovernmental reporting entities. For *publicly accountable* entities (which include all public entities and certain nonpublic entities, such as banks and insurance companies, whose operations have significant public-interest implications), the AcSB recently replaced prior Canadian GAAP with International Financial Reporting Standards (IFRS).

The AcSB refers to entities that lack public accountability as *private* entities. For private FP entities, the Board recently replaced prior Canadian GAAP with a new set of standards developed specifically for such entities. Those standards are now documented in Part II of the Canadian Institute of Chartered Accountants (CICA) *Handbook—Accounting*.

Most recently, the AcSB developed certain unique standards for private NFP entities that are designed to be used in conjunction with most of the new standards for private FP entities and again replace prior Canadian GAAP. The standards for private NFPs are now documented in Part III of the *CICA Handbook*, but they don’t comprise a stand-alone set of standards. Part III of

the *CICA Handbook* references Part II. An NFP organization applying Part III also applies the standards in Part II to the extent that the Part II standards address topics of general applicability.

For fiscal years beginning on or after January 1, 2012, each private Canadian NFP entity must apply either the new NFP standards or IFRS, depending on which set of standards, in its entirety, best meets the needs of users of the entity’s financial statements. Early adoption is permitted. The AcSB has also determined that it’s inappropriate for private NFP entities to apply standards for private FP entities without also applying the additional and alternative standards specifically for private NFP entities.

The increasing willingness of the U.S. FASB, Canadian AcSB, and other standards-setting bodies throughout the world to set different accounting standards for different types of reporting entities stands in sharp contrast to the increasing cooperation of the same bodies in eliminating differences in accounting standards among countries. In the coming years, these two trends are likely to result in significant realignments of standards, i.e., more differences on the “entity type” dimension and fewer differences on the “country” dimension. **SF**

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