

SCSBC Seminar

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Michael Loewen
CPA, CA



Loewen Kruse Chartered Professional Accountants

- Loewen Kruse specializes in charities and not-for-profit organizations
- We provide the following services:
 - Assurance
 - Accounting and bookkeeping
 - T3010 preparation
 - Charities consulting



Loewen Kruse Chartered Professional Accountants

- Serving the Charitable Sector, including:
 - Independent Schools & Post Secondary Institutions
 - Intermediate & Long Term Care Organizations
 - Religious Organizations
 - Health Organizations
 - Camps
 - Relief & Development Agencies
 - Special Purpose Organizations



Agenda

- New BC Society Act (financial information)
- Assurance Update – Special Reporting for SOPSOC and ES
- Accounting Update for NPOs
- CRA Update
- Common Accounting and Compliance Issues Charities Face (Tips, Tricks and Traps)



New BC Society Act (Financial Information)

- Anticipated Royal Assent in November 2016
- Under the New Act, members of the public will have a right to inspect financial statements
- Financial statements must disclose the top 10 salaries (over a base amount to be set by regulation)
- Identity of recipient and privacy “protected” by referring to employees’ position and not their name



Assurance Update – SOPSOC and ES-AUDIT Forms

- For 2014-2015 – The Ministry of Education has asked that only the Auditor’s Report or Review Engagement Report of the school’s financial statements be attached to the SOPSOC
- The problem: CPA’s cannot issue these reports without the accompanying Financial Statements
- We discussed this issue with the Ministry



Assurance Update – SOPOSC and ES-AUDIT Forms

- Meeting in December 2015 with the Ministry of Education
- Response on our concerns are still outstanding
- However, the Ministry was receptive to the proposals set forth
 - "Review engagement form necessary for SOPSOC?"

Assurance Update – SOPOSC and ES-AUDIT Forms

- ES Form
- There will be an additional report attached to the ES-AUDIT FORM
- This will be either a CSAE 3000 or a CSAE 3001
- Effective for engagements dated on or after June 30, 2017

Assurance Update – SOPOSC and ES Forms

- New requirements for ES and SOPSOC reports issued by external accountants
- SOPSOC Reports to have a CAS 805 Report
- CAS 805 - *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
- We are currently issuing this report with the SOPSOC

Accounting Update for NPOs – Evolution of NPO Standards

- *Statement Of Principles* published in April 2013 by the Accounting Standards Board of Canada (AcSB) to make changes to the Not-For-Profit Accounting Standards
- The AcSB provided an update in June 2015

Accounting Update for NPOs – Evolution of NPO Standards

- These proposed changes apply to all NPOs (charities, societies, clubs, schools, unions, government)
- However, these changes pertain to AUDITED and REVIEWED financial statements *only*

Accounting Update for NPOs – Evolution of NPO Standards

- June 2015 Meeting of the AcSB
- Conduct an accounting standards improvement project in two phases, and one additional project to conduct further research on certain issues

Accounting Update for NPOs – Evolution of NPO Standards

- **Phase One**
- Phase One commenced in the fall of 2015, and the AcSB hopes to issue an Exposure Draft in 2016
- An “Exposure Draft” is the final document for public input before the standards become GAAP



Accounting Update for NPOs – Evolution of NPO Standards

- **Phase One (continued)**
- Continue to apply/maintain the standards for:
 - Capital Assets, including artwork not held in a collection
 - Intangible Assets
 - Collections (works of art, etc.)
 - With one requirement – to recognize collections at their cost, or nominal value (not fair market value)



Accounting Update for NPOs – Evolution of NPO Standards

- **Phase One (continued)**
- Continue to apply/maintain the standards for:
 - Related Party Transactions (no change)
 - Allocated Expenses Over Different Functions
 - If you are currently allocating expenses by function, there will be no change to the accounting principles



Accounting Update for NPOs – Evolution of NPO Standards

- **Phase Two**
- Phase Two will address all things related to Section 4450 *Reporting Controlled and Related Entities by NPO's*
 - Require consolidation of controlled entities, except for numerous immaterial organizations
 - Equity Method for controlled profit-oriented enterprises



Accounting Update for NPOs – Evolution of NPO Standards

- **Phase Two (continued)**
- Revisit the concept of reporting expenses by function on the income statement, and disclosure of expenses by object in the Notes to the Financial Statements



Accounting Update for NPOs – Evolution of NPO Standards

- **Phase Two (continued)**
 - Currently, an NPO can report expenses by Function or Object
 - The AcSB is proposing that all NPO's report by *Function*, rather than *Object*
 - Example of Functions: Fundraising, Administration, Research
 - Example of Objects: Office, Rent, Travel, Salaries



Accounting Update for NPOs – Evolution of NPO Standards

- **Separate Project**
- The Separate Project contains the contentious issues, and it appears that the AcSB has deferred the “sticky issues” for last
 - **Aka: Revenue Recognition**

Accounting Update for NPOs – Evolution of NPO Standards

- **Separate Project – Revenue Recognition and Related Matters**
 - An externally restricted contribution must meet the definition of a liability in order NOT to be recognized as revenue
 - Elimination of the Deferral and Restricted Fund Methods for accounting for restricted contributions
 - Pledges should meet the definition of an asset in order to be recorded

Accounting Update for NPOs – Evolution of NPO Standards

- **Separate Project (continued)**
 - Contributions of materials and services may be included in the financial statements if the fair market can be ascertained
 - Capital Assets: Consider eliminating the \$500,000 size exemption

Accounting Update for NPOs – Evolution of NPO Standards

- **Conclusion**
 - Phases One and Two will result in Exposure Drafts
 - Phase One Exposure Draft will be released in 2016
 - This means: There will be material changes coming for financial statements in the future

Assurance Update

- The Auditing and Assurance Standards Board is working on some minor revisions to the Canadian Auditing Standards
- Review Engagement Report standards
 - a Re-Exposure Draft has been published after significant and vocal feedback from the initial Exposure Draft

Assurance Update

- Review Engagement Report standards (continued)
 - Proposed: more rigorous procedures, more work to be done for a Review including on opening balances
 - Additional guidance for modifications to the report opinion
 - Examples: if prior year issues remain unresolved, going concerns, prior year unaudited/reviewed etc.

Assurance Update

- Review Engagement Report standards *(continued)*
 - Eliminated previous Exposure Draft requirements about obtaining an understanding of control systems and assessing risk. Replaced with basic identification of accounting/record keeping policies and areas where material misstatement is likely to occur
 - No longer provides negative assurance. Now report is based on “limited assurance”



CRA Update – Public Service Bodies Rebate

- CRA has recently advised that two rebate claims must be filed per year
- At this point we are not aware of anyone having a claim denied because it covers the wrong period but it is a concern



Common Accounting and Compliance Issues Charities Face

- A Collection of Accounting, Auditing and Internal Control Issues identified through the year
 - Also known as “Management Letter Points”



Common Accounting and Compliance Issues Charities Face

- Externally Restricted Donations
 - Externally restricted funds arise from a donor who donates to a charity and imposes restrictions on the donation
 - Charities must be careful when accepting restricted donations: the donation can only be used for the programs intended by the donor. It is difficult to use unspent restricted funds for a different purpose



Common Accounting and Compliance Issues Charities Face

- Externally Restricted Donations
 - Solutions:
 - Consider refusing the gift if you foresee that you cannot fulfill the restriction in the future
 - Ask the donor to remove the restrictions **before** accepting the gift
 - Consider a **publicly communicated** restricted donations policy, which states that “any unspent funds from a fully funded project can be used for general purposes, at the discretion of the directors”



Common Accounting and Compliance Issues Charities Face

- Benevolence Policies
 - A Benevolent Fund is a fund which is intended to help persons in need
 - Cannot direct donations to a specific individual via the Benevolent Fund
 - Solution:
 - Have a written Benevolent Policy in place
 - Set up an Benevolence Fund Committee to approve requests for benevolence



Common Accounting and Compliance Issues Charities Face

- Unreconciled General Ledger Accounts
 - If you are using a separate donor software, ensure that the donations are reconciled to the general ledger monthly (not annually)
 - Other accounts to be reconciled on a monthly basis include receivables, prepaids, payables, deferred contributions, and debt



Common Accounting and Compliance Issues Charities Face

- Beware of making journal entries to the Fund Balances
 - There are **very** few instances where a journal entry needs to be posted to Fund Balances, Equity, "Retained Earnings", or Net Assets
 - Typically, journal entries posted to Fund Balances will result in unreconciled differences



Common Accounting and Compliance Issues Charities Face

- Netting Revenues and Expenses
 - Posting revenues and expenses to the same account is incorrect ("net" basis)
 - GAAP requires that revenues and expenses be presented on the "gross" basis
 - Example – Field Trips/Retreats (showing the "net" amount of the contributions and expenses)



Common Accounting and Compliance Issues Charities Face

- Timely Reporting
 - A typical charity should have monthly financial statements for the Board ready by the 10th of the following month
 - This allows the Board to make decisions based on timely financial information



Common Accounting and Compliance Issues Charities Face

- Basic Internal Controls (common examples)
 - Segregation of Duties (Person making deposits should not record the revenue in the general ledger)
 - Invoices should be approved before the cheque is written (by someone not writing the cheques)
 - Bank reconciliations should be approved by someone other than the preparer and initialed for evidence it was done



Common Accounting and Compliance Issues Charities Face

- General Donation Receipts
 - The donor's middle initial was not recorded on the donation receipt
 - The place or locality where the receipt was issued was not recorded (NOT to be confused with the requirement of the name and address of the charity)
 - The eligible amount of the donation received was not recorded



Common Accounting and Compliance Issues Charities Face

- Gift-in-Kind Donation Receipts
 - The date of the donation was not recorded
 - The description of the gift-in-kind was not recorded
 - Where gifts-in-kind over \$1,000 are received, the name and address of the appraiser was not completed or recorded



Common Accounting and Compliance Issues Charities Face

- Donation Receipts (*continued*)
 - Directed donations to a specific person, or persons
 - Donations must be a gift of property, voluntarily made, and must not benefit a person directly
 - Access to donation software was not restricted to authorized personnel (allowing for potential fraud)
 - Duplicates of official receipts are not kept



Common Accounting and Compliance Issues Charities Face

- Minutes
 - Failing to note in the minutes the approval of the auditor, or
 - Referring in the minutes to the approval of the appointment of the auditor, when the firm has only been engaged for a review
 - Failing to note in the minutes the approval of the financial statements by the board
 - Minutes not being signed by a director



Thank You for Attending!

Michael Loewen, CPA, CA
Loewen Kruse,
Chartered Professional Accountants

mike@LKCA.ca
Ph: 604.736.4300

