The Anglican Church of Canada L'Église anglicane du Canada

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Dear Mr. Martin and Mr. Beauchamp,

We are writing to you regarding "*Improvements to Not-for-Profit Accounting Standards*", the Statement of Principles (SOP) prepared jointly by the Accounting Standards Board and the Public Sector Accounting Board. We would like to thank the Boards for providing a process that invites input and was extended to include round table discussions. We appreciate this genuine effort to solicit input.

We are also thankful for the work of the many umbrella organizations such as Imagine Canada and the Canadian Council of Christian Charities that respond on behalf of their membership. These organizations speak for many, especially a number of smaller organizations that do not have the resources to respond to the SOP. With the vast number of not-for-profit organizations (NPOs) in Canada, most of which are small, we hope that you give serious consideration to all submissions, regardless of organizational size. We have read the submission from Imagine Canada and are in general agreement with the comments in that document.

While we support the Boards' efforts to devise an accounting framework for NPO organizations, including our Church, we are concerned that the framework proposed in the SOP will not result in financial statements that are useful to donors and other users of our financial statements. In particular, we agree it is critical that the proposals be reconsidered based on a better understanding of the users of our financial statements and their needs.

The failure to understand the users of the financial statements of NPOs has resulted in the SOP drawing on existing public sector accounting principles as a basis for new NPO standards. The major flaw in employing this model is the assumption that the users of public sector entities' financial statements are similar to those of NPOs. We believe that this assumption is flawed; the users of public sector entities' financial statements are primarily other government organizations, while the users of private sector NPOs' financial statements include a wide variety of individual, institutional and corporate donors, financial institutions and government agencies such as Canada Revenue Agency's Charities Directorate. This constitutes a broad set of users which is significantly different than those of public sector organizations and which have information needs which differ accordingly.

In addition, we are concerned that the Board has overlooked some key practical considerations in adopting the public sector model. Based on our discussions with several audit firms, it is our understanding that there has been significant difficulty in applying the public sector accounting principles, resulting in a lack of comparability between financial results of entities within the public sector. We are aware of a number of public sector entities that have adopted IFRSs or even US GAAP in preference to the public sector accounting principles. This adds to our concern with regard to the efficacy of using the public sector model as the basis for new NPO standards.

We note that the SOP focuses on the balance sheet, implying that this statement is the most important to users of financial statements of NPOs. While this may be true for entities which are facing financial hardship, we would argue that most users of our financial statements are concerned with how and where we obtain funds and how we use those funds for charitable program and ministry, which would indicate that the statement of operations and/or statement of cash flows are more important to our users.

In short, we disagree with paragraph .009's statement that the SOP has "been developed with the needs of" the NPO "sector's financial statement users in mind." We suggest that the educational material thoughtfully provided by the Canada Revenue Agency Charities Directorate on its website and available to the public is tailored more appropriately to the user needs of financial information for registered charities. For example, the Quick View option for any given charity indicates that charity's purposes and provides graphic information on revenues and expenses for the most recent year in which a T3010 has been filed; this underlines the importance of the statement of operations to key users of the financial statements of charities – existing and potential donors. We would also suggest that the Board reviews the work that has been done regarding accounting standards for NPOs internationally; it seems to us that work that has focused specifically on NPOs might be more useful and relevant in developing standards for Canadian NPOs than Canadian accounting standards for public sector entities.

We would also like to highlight a unique element of the not-for-profit ("NPO") sector across Canada, and certainly in Ontario. Over 20,000 Ontario NPOs are small volunteer-led and run organizations with few assets. Accounting standards should not create undue financial and administrative burdens and should be proportionate to the amount of resources organizations have. It seems to us that many of the proposed requirements would impose a compliance burden that would be inconsistent with the principles adopted for private enterprises, which state that "the benefits expected to arise from providing information in financial statements should exceed the cost of doing so" (*CPA Canada Handbook*, Part II, 1000.13).

This submission will highlight unique elements of our Church – including our parishes - many of which are small, highly dependent on volunteers to provide leadership and operational support, and having few financial or tangible assets. Imposition of accounting standards should not create undue financial and administrative burdens and ought to be proportionate to organizational resources. We are concerned that many of the proposed requirements would impose a higher compliance burden while not providing benefits to the users of the financial statements.

This submission will also bring to your attention some particular concerns with the proposed changes and explain how they will directly affect our organization.

Principles 2 and 3 - Changes to the deferral and restricted fund methods of accounting

We are very concerned with the proposed elimination of the deferral method, particularly the requirement to recognize revenue immediately when a gift is received, except when, and to the extent, that the contribution gives rise to an obligation that meets the definition of a liability.

Even though the SOP acknowledges the non-reciprocal nature of contributions to NPOs, we are concerned that the definition of a liability contained in the SOP does not adequately consider the unique characteristics of contributions and their non-reciprocal nature. CRA's Charities Directorate recognizes this distinction in Summary Policy CSP G01 – Gift, which defines a gift as "a voluntary transfer of property without consideration". In determining that a liability does not exist where there is no legal obligation to return contributions to donors, we would argue that the Board has considered form over substance.

When donors or funders make a contribution to a NPO, it is with the expectation that the NPO uses those funds for the purpose stipulated by the donor. While a legal obligation may not exist, the NPO has a legal and moral obligation to use the funds as agreed or stipulated by the donor. Failure to fulfill this obligation may have negative consequences for the NPO in the future, including loss of future donations, as discussed below. In short, just because it is unlikely that a NPO may have to return contributions that are not used as intended, this does not mean that an obligation to the donors does not exist.

In addition, we find the notion that a contribution that is not a liability is revenue to be puzzling. In light of the extensive discussions with users of financial statements of entities addressed in other Parts of the *CPA Canada Handbook*, we would argue that the definition of revenue included in the SOP is not sufficiently technically fulsome to provide guidance for preparers and users of NPO financial statements and will result in financial information that may be misleading.

The proposed elimination of the deferral method and the requirement to recognize revenue immediately upon receipt are particularly problematic in this respect. Immediate recognition will result in volatility in the statements of operations of NPOs, with potentially large surpluses arising in the periods where funds for specific activities or programs are received and deficits in the periods when activities or programs are delivered. This mismatch between revenues and expenses will make it difficult for users of NPO financial statements to assess the financial performance and needs of the NPO. In practical terms, we are concerned that our donors – who are many in number and include individuals who are church members – will fail to see the need for donations to the Church in years when surpluses arise. In a sector where competition for scarce donor funds is fierce, this will have devastating consequences for the Church, making it nearly impossible for us to continue to raise funds from our donor base.

As our organization is one of many, we are concerned that the unintended negative impacts of the SOP could be far-reaching. At a recent seminar, the Director General, Charities Directorate, Canada Revenue Agency, noted that religious charities represent approximately 40% of all charities registered in Canada. Therefore, the impact of the proposed standards for NPOs could have a devastating effect on a substantial number of charities in Canada.

For similar reasons, we fundamentally disagree with the treatment of endowment contributions set out in Principles 2 and 3 and would argue that the logic that would have endowment contributions immediately recognized in revenue represents a lack of understanding of what endowments are and how they work in practice. We submit that the proposed treatment for endowment contributions is another instance of form over substance. For example, if a NPO cannot use the principal of an endowment contribution in its operations, we cannot understand how this represents control of that asset.

While an entity may be able to choose where endowment contributions are invested, these funds are not available for use in an organization's charitable purposes. Therefore, showing endowment contributions as revenue on the statement of operations would be misleading to financial statement users. We agree with Imagine Canada's conclusion that endowments most closely parallel capital contributions in the for-profit world. Accordingly, recording endowments as revenue represents a significant inconsistency with accounting principles for similar contributions set out in other Parts of the *CPA Canada Handbook*.

Recognition of endowment contributions as revenue exacerbates the previously discussed issues related to the impact of the proposed accounting principles in the statement of operations. It would be challenging for a NPO explain apparent surpluses that are unavailable to allow the organization to carry out its mission.

In a similar vein, we also note that the development of principles that will result in significant volatility in the statements of operations of NPOs is at odds with arguments made in support of new standards set out in other Parts of the *CPA Canada Handbook*. For example, the new standards on *Employee Future Benefits* in Part II, s. 3462 specifically considered the statement of operations volatility which may result from their adoption. We are puzzled that the SOP largely ignores these concerns for NPOs, which are required to follow the guidance in Part II in the absence of specific consideration in Part III.

Principle 7 – Elimination of the size test for small NPOs

While we concur with the proposal that all NPOs should report capital assets on their balance sheets, we are concerned that this may be unachievable in practice. The elimination of the exemption will have significant impact on many organizations across the sectors, which have little administrative capacity to conduct such financial reporting for their few assets. This will be especially true for the over 20,000 organizations (in Ontario alone) with budgets under $50,000 that have neither staff nor capacity to track assets. In addition, Principle 7 fails to consider the needs of the users of the financial statements of small NPOs, who will be focused on sources and uses of cash as opposed to the NPO's balance sheet. These were key considerations in the adoption of the existing size test for small NPOs.

Principle 10 - Controlled and related entities

Like Imagine Canada, we do not understand how the existing standards in Part III fail to "provide an accounting of the full nature and extent of the financial affairs and resources that a reporting entity controls." We feel that the points raised by Imagine Canada regarding access to information about controlled entities are well taken. In light of an obvious lack of understanding of the users of NPO financial statements, we feel that the Board's arguments based on "the typical user'" of these financial statements or of addressing "the needs of financial statement users" are specious.

In practical terms, the requirement to consolidate "controlled" NPOs is also problematic. We would like to expand on Imagine Canada's expressed concerns (in paragraph 12/13.6) regarding the concept of control, with some examples of how difficult it would be to define and determine "control" in the context of our Church.

A prime example of the difficulty in determining control exists at the level of the diocese – a geographic area under a bishop and governed by a diocesan synod. Individual parishes may or may not be separately registered charities. While the diocese provides organizational structure and, on paper, has some ability to exercise control over decisions at the parish level, the diocese does not, in substance, control the parishes. For example, the diocesan synod – the governing body for a diocese – is made up of representatives of local parishes. Therefore, it is highly unlikely that a diocesan synod would make significant decisions that would benefit the diocese and/or diocesan office while negatively impacting individual parishes.

Another example of the difficulty in defining control relates to the notion that dioceses have an "economic interest", per *CPA Canada Handbook, Part III*, 4650.06(a) because, in most congregations, all real property is held for the diocese, regardless of whether the diocese or the congregation is the registered owner. In practice, a diocese would only take control of a congregation's property when the congregation ceases to exist. On taking control of that property, a diocese would be obliged to redeploy and use the assets for further ministry in the diocese; no assets are held in trust for the ministry of the Church.

Similarly, under *CPA Canada Handbook, Part III*, s. 4650.06(c), the dioceses and its parishes and congregations have similar objectives by virtue of a shared faith and values and a shared framework of acceptable behaviour that is compatible with those beliefs, as well as an order of service or liturgy to be used by "member organizations" or congregations. Clergy must be trained and are only eligible to minister within a congregation if they are ordained. We would argue a conclusion that a diocese controls its parishes and congregations by virtue of shared objectives would also be difficult to defend.

We would argue that, in substance, real control is exercised at the parish level rather than at the diocesan level; in a real sense, a diocese is "controlled" by its parishes. The diocesan governance model rests on the premise that individual congregations are capable of running their own affairs. They set their own budgets, look after hiring and firing, maintenance, expansion, acquisition and disposition of real property within the diocesan governance structure. This governance model parallels that which exists between a franchisor and a franchisee in the for-profit world, where many aspects of the franchisee's operations are governed by the franchise agreement as exemplified in

IFRS 10, B29-B33. We note that the franchisee is viewed as a distinct entity and is not consolidated with the overall franchise operations.

We would also like to express our concerns regarding the impracticability of consolidating parishes at the diocesan level. The difficulties with consolidation begin at the congregation level, with congregations varying in size from small rural parishes to large urban churches with multiple staff and operating budgets that may be larger than that of the diocese itself.

Even if the smaller congregations were excluded from the consolidation process, the practical challenges of consolidation would be considerable. Parishes are a diverse group, with different accounting systems, different financial statement categorization and even different auditors. Even if we were only required to consolidate our larger parishes, we doubt that they would be able to produce financial statements in a timely and cost-effective manner. Our diocesan auditors would be required to do significantly more work in order to rely on the work of other auditors, resulting in significant increases in audit fees. The costs of compliance would greatly increase the administrative expenses, diverting scarce resources - given sacrificially - from our Church's mission and ministry.

We are not convinced that, even if it were practicable for dioceses to consolidate material "controlled" NPOs, the resulting consolidated financial statements would provide useful information for the users of those statements. In our experience, stakeholders of individual parishes (including the parishioners) are interested in the financial information relating to their own parish. Stakeholders of the dioceses (including financial institutions and the Canada Revenue Agency) are only interested in the financial transactions of the diocese itself.

Further, we are concerned that consolidated financial statements at the diocesan level could potentially be misinterpreted by the users of the financial statements and poor decisions made based on a misunderstanding of what the financial statements represent. For example, if a diocese is applying for a bank loan, consolidated financial statements would not be useful to a bank in ascertaining the financial health of the diocesan office because the consolidated statements would include financial resources that are not available to spend on diocesan activities, but are really attributable to local parishes. For the same reasons, potential donors looking at the same statements could misinterpret a consolidated balance sheet and statement of operations as an embarrassment of riches and would not choose to support diocesan programs.

We conclude that the cost to comply with a requirement to consolidate financial information would be substantial, with no resulting benefit to the Church.

Principle 14 – Financial Statement Presentation – Requirement to report expenses by object and by function & presentation / disclosure of fundraising expenses and general support expenses

We are in agreement with Imagine Canada with regard to Principle 14. We do not understand the Board's insistence on NPOs presenting expenses by function in the statement of operations; even IAS 1.99 allows public companies – which have significantly more resources to devote to the preparation of financial statements – the option of presenting "an analysis of expenses recognized in profit and loss using a classification based on either their nature or function within the entity, whichever provides information that is reliable or more relevant." To deny this option to NPOs seems punitive. In light of our previous concerns with using public sector standards as a blueprint for NPO accounting principles, the reference to section PS 1201 does little to support an argument for the proposed standard.

Anyone who has participated in an IFRS conversion in the public company sector will confirm the challenge that presenting the statement of operations in compliance with IAS 1 – which involved reporting expenses by object or function. Forcing NPOs to perform a similar conversion will be difficult and expensive, adding to administrative expenses without providing significant benefits to the users of their financial statements. In addition, it will be difficult if not impossible for smaller NPOs whose financial records and undertakings are maintained by volunteers, to comply with the proposed standards.

We would like to underline Imagine Canada's concerns about the conclusion that information about fundraising and general support expenses is critical information for users. While the media focuses on the cost per dollar raised and the cost of administration (often in a sensationalistic and simplistic way), and CRA requires disclosure in charities' regulatory reports, we do not consider these numbers to be an adequate or appropriate measure of a NPO's efficiency or effectiveness. The allocation methodology which a NPO employs will significantly impact these measures; there is no commonality in the way in which the measures are derived. Even if these measures could be more clearly defined, they would still result in invalid comparisons between charities because the ways in which charities source and use funds is incredibly diverse. For example, a high profile NPO with a popular cause will have a significantly lower fundraising ratio than a lesser known charity raising funds for a less popular cause.

We would present similar arguments against the use of administration costs as an indicator of a charity's efficiency. For example, a charity that is required to employ skilled and experienced staff to carry out its charitable mission will have significantly higher administration costs than one which is more reliant on volunteers.

In the absence of other information about how an organization carries out its mission, fundraising and general support expenses and related ratios, are meaningless and potentially misleading. Neither fundraising costs nor administrative costs provide information about whether we are achieving our purpose. Competition for donor dollars is always keen and even more crucial during economic downturns. By forcing the disclosure of meaningless information in the financial statements, the Boards are doing charities – and the users of our financial statements - a disservice.

We are disappointed that the Board has focused on disclosures that are facile and in the public eye rather than on providing users of financial statements – including donors – with information about what the charity does, how it carries out its mission. Further, we believe that by codifying disclosure of items that are misleading and of questionable relevance, we are doing a disservice to users of financial statements.

We would like to provide the following additional comments:

We are concerned that the SOP would result in financial statements that do not provide useful information to the users of our financial statements. For example, the primary users of our financial statements are our dioceses, members of congregations and Anglicans who contribute financially to the various organizations and programs of our dioceses. The majority of these users are not financially literate; they are concerned with what the diocese has done with the finances under its immediate control and they want that to be clearly evident. At annual meetings, the focus is on the financial schedules and narratives because the financial statements are already impenetrable to most synod members and because the information they need is not included in the financial statements. In short, they prefer the most simple and straightforward presentation of this information; presentation that is solely based on accounting theory has no value to these users. The unintended negative impacts of the SOP could be far-reaching

The reality is that, more and more, not-for-profits are called upon to provide a range of services that the government either cannot afford or does not choose to provide. Our Church does not just hold Sunday services; it has a much broader mission to serve humanity. Canadian Anglicans participate in God's mission in the world. We work with ecumenical, interfaith, and Anglican partners in Canada and internationally. We address issues of climate change, healing and reconciliation, theological education, Indigenous justice, housing and homelessness, and more. Through the diocesan contributions to General Synod, the national church body, support is provided to overseas missions and to help support ministry in the Canadian north. The emerging face of Anglican northern ministry is one of co-operation, innovation, mutual respect and, increasingly, self-determination for indigenous Anglicans.

Nationally, our Church creates distinct and supportive ministries which respond to and reflect the diversity of Canadian society; our decentralized diocesan structure enables this work by providing an effective governance structure, episcopal leadership and a common voice.

Parishes are involved in outreach to the surrounding communities, to other parts of Canada and overseas (through the Primate's World Relief and Development Fund). Parishes are made up of individuals participating in organizations and networks working to eliminate poverty, provide counseling and support to individuals, especially the vulnerable in society. Responses to community needs are manifest in a wide range of services and programs, from youth drop-in and counseling, youth and family summer camps, women's shelters, participation in Out of the Cold programs for the homeless, food banks, food gift cards/hampers, community meals, support of refugee families with Immigration Canada, seniors' programs. Anglican communities are working with First Nations towards reconciliation and healing of wounds from the residential school experience.

Anything that makes it more difficult for our Church to raise funds, or that creates higher administrative and compliance burdens would divert resources from our mission and ministry, and would ultimately be a disservice to our communities. Unfortunately, we believe that this is exactly what the principles in the SOP will do.

Thank you for the opportunity to comment on these proposals. We look forward to further dialogue about the accounting standards for not-for-profit organizations.

Yours sincerely,

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