

 **LOEWEN KRUSE** | Chartered Professional Accountants

**SCSBC Seminar**

March 7, 2017

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**SCSBC Seminar**  
March 7, 2017  
Michael Loewen  
CPA, CA

 **LOEWEN KRUSE** | Chartered Professional Accountants

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**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

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## Agenda

- Accounting Update
- Assurance Update
- CRA Update
- Independent Schools – Changes to Compliance Reporting
- Common Accounting Issues for 2016

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## Accounting Update – 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

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## Accounting Update – 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*

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## Accounting Update – Evolution of NPO Standards

- June 2015 Meeting of the AcSB
- Conduct an accounting standards improvement project in three projects
  - Project One (Short Term)
  - Project Two (Medium Term)
  - Project Three (Long Term)
- These proposed changes are still a long ways away, but planning is prudent

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## Accounting Update – Evolution of NPO Standards

- Project One (Short Term)
- Exposure Draft has been released for Tangible Assets, Intangible Assets, and Collections
  - Recognize partial write-downs of assets using replacement cost or fair value
  - Recognize art collections at cost or nominal value
  - Effective date for fiscal years starting on or after January 1, 2019.

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## Accounting Update – Evolution of NPO Standards

- Project Two (Medium Term)
- Exposure Draft expected by 2<sup>nd</sup> half of 2017
  - Consolidate controlled NPOs
  - Equity method for controlled profit oriented enterprises, rather than consolidation option

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## Accounting Update – Evolution of NPO Standards

- Project Two (Medium Term) (continued)
  - Present expenses by function on the Statement of Operations and disclose by object in the Notes to the Financial Statements
  - Present total fundraising and general support expenses in the Statement of Operations or disclose in the Notes to the Financial Statements

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## Accounting Update – Evolution of NPO Standards

- Project Three (Long Term)
- Exposure Draft expected by 2<sup>nd</sup> half of 2018
  - Pledges recognized as revenue only if they meet the definition of an asset
  - Effective elimination of the Restricted Fund Method with a modified Deferral Method
  - Elimination of \$500K capital asset size test exemption

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## Assurance Update

- New Review Engagement Standards
- Canadian Standards for Review Engagements (CSRE) Section 2400
- Effective for reviews of annual and interim financial statements for periods ending on or after December 31, 2017
- Early adoption is **not** permitted

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## Assurance Update

- The report will change
- The external accountant is required to communicate with management or those charged with governance about all matters regarding the engagement that are judged to be of sufficient importance

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## Assurance Update

- The external accountant is required to identify areas in the financial statements where misstatements are likely to occur
- Any areas identified will require the external accountant to design and perform appropriate procedures

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## Assurance Update

- How does this affect ***you***?
  - The review engagement will require ***much more involvement*** from the client and much more work from the external accountant
  - Plan for more time during the review engagement process
  - The level of assurance provided will be higher

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## CRA Update – Public Service Bodies Rebate

- CRA has recently advised that two rebate claims must be filed per year
  - We have experienced organizations having their PSB Rebate rejected if one rebate application includes twelve months

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## CRA Update – Books and Records

- Church offering envelopes must now be kept for six years from the end of the tax year to which the envelope relates instead of two years
  - Effective for the 2015 taxation year onwards

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## Independent Schools – Proposed Changes to Compliance Reporting

- FORM-ES (Eligible Students) and SOPSOC (Statement of Per Student Operating Costs)
- No changes to the procedures or formulae for calculating these forms
- Changes to the reporting procedures to the Ministry of Education

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## Independent Schools – Proposed Changes to Compliance Reporting

- Both forms will have to be signed by the school principal (or similar management position)
- The external accountant will attach a specialized auditor's report to both forms
- These new requirements will come into effect May 15, 2017 (for the FORM-ES) and October 15, 2017 (for the SOPSOC)

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## Common Accounting Issues for 2016

- The following are commonly encountered accounting, auditing and internal control issues identified in 2016
  - Also known as management letter points

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## Common Accounting Issues for 2016

- Official Donation Receipts for Tax Purposes do not contain all the prescribed information
- No publicly communicated donation policy for restricted donations for fully funded projects
  - the policy should communicate that the directors have the discretion to allocate unused donations to general operations or another project
- Dollar amount of donation receipts issued is not reconciled to the general ledger

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## Common Accounting Issues for 2016

- Restricted cash used for general purposes
- No evidence of approval on invoices to be paid
- Terms of employment, including current remuneration rates, are not adequately documented and included in the employee file
- Employees treated as contractors, when in fact they are employees (CPP and EI issues)

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## Common Accounting Issues for 2016

- Revenues and expenses netted into one account, when instead they should be presented separately using the gross method
- Monthly journal entries, such as amortization, prepaid expenses and mortgage payments, are not being prepared, giving rise to incomplete monthly financial statements

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## Thank You for Attending!

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