

September 30, 2019

Michael Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Re: Government Not-for-Profit Consultation Paper

Dear Sir,

Thank you for the opportunity to comment on the above-noted consultation paper ("CP"). MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms, with a significant focus on clients in the public sector. We believe that we are well positioned to provide feedback on this important issue.

We have reviewed the CP and have provided our responses to the specific questions noted below.

1. What are the future trends specific to the GNFP sector and their impact on financial reporting?

In our opinion, one of the main trends specific to government not-for-profit organizations ("GNFPOs") is an increasing need for funding sources in addition to their parent government. We have seen GNFPOs supplementing their government funding through private donations, including endowments, and through sale of naming rights and other forms of sponsorships.

This could increase the number of GNFPOs who must account for endowments and other forms of funding. Those entities who have either chosen or been mandated to report their financial statements in accordance with Public Sector Accounting Standards ("PSAS") without the PS 4200 series would not have specific accounting guidance for these forms of funding. As well, GNFPOs who obtain funding from the private sector may experience increasing diversity in the information needs of the users of their financial statements. For example, public sector funders may seek comparability with public sector entities while private sector funders may seek comparability with private sector NPOs.

2. Are there any other significant financial reporting concerns not captured as part of the 2017-2018 GNFP consultations?

We agree with the significant financial reporting concerns identified as part of the 2017-2018 consultations and do not have any further financial reporting concerns to add at this time.

3(a-c) & 4. Should governments and GNFPs account for transactions similarly (i.e., using same accounting standards)? Should governments and GNFPs present information similarly in the financial statements (i.e., using the same reporting model)? If no, what distinct needs do GNFP financial statement users have that would require GNFP specific accounting and/or presentation guidance? Would financial statement users benefit from all GNFPs using the same set of financial reporting standards?

Use of a unified framework for all GNFPs, which should improve comparability between GNFPs, is conceptually appealing. However, the absence of a clear consensus within the sector that this should be the overriding consideration for GNFP reporting would suggest there is at least a segment of the sector that values the diversity currently available.

GNFPs have distinct needs and operations influenced by the controlling government. Some governments may view a GNFP as more similar to a government department and therefore may place more value on comparability to the government's financial statements and on the ease of consolidation. Other governments may view GNFPs to be more separate from the operations of the controlling government. In at least some cases, users of these financial statements will require performance measures for evaluating stewardship over resources that are different from those that are relevant for a government and more comparable to a private sector NPO.

Further, prescribing one single set of standards to all GNFPs may result in unintended consequences, such as a GNFP using a special purpose framework, or departures from those standards at the direction of the controlling government. The potential widespread use of special purpose financial statements would not satisfy the general information needs of the users in the GNFP sector. Additionally, the use of special purpose frameworks would further limit comparability between entities.

We appreciate the consultation efforts that have been made to date. It is our view that to successfully respond to the above-noted questions, more information and research on why entities choose to apply PSAS with, or without, the PS 4200 series is required. For example, for entities whose controlling governments specify the reporting alternative to be followed, it would be useful to know why the specific framework was chosen.

We would also recommend extending the consultation process beyond the current concentration within the SUCH (i.e., schools, universities, colleges and hospitals/health authorities) subsector, as this subsector does not encompass all stakeholders who utilize the PSAS framework and the PS 4200 series within the framework. All levels of government, including federal, provincial, municipal, and Indigenous, have GNFPs outside of the SUCH subsector that may have differing views from their SUCH subsector counterparts on what accounting framework GNFPs should follow. Examples of these GNFPs include economic development corporations, housing authorities, and recreational and cultural entities, such as art galleries, museums, and recreational facilities.

5 & 6. Would financial statement users benefit (e.g. performance measurement, funding, etc.) from comparable financial information within each subsector? What are the key areas where financial information comparability within each subsector would be beneficial or not for financial statement users (e.g. presentation, disclosure, revenue recognition, etc.)?

We do not believe that PSAB should further stratify GNFPO financial reporting standards by subsector as the overall purpose for a GNFPO's existence is the same amongst GNFPOs in different subsectors – i.e., they are entities organized and operated for a not-for-profit purpose. Further, we anticipate the following potential issues in introducing separate reporting requirements for subsectors of GNFPOs:

- Determining the criteria to be used to identify subsectors and the number of subsectors to be created will take time and resources of PSAB with limited benefit to users of the financial statements.
- Some GNFPOs may not clearly fit within a subsector or be 'blended' in nature. They would then either need to establish one subsector as predominant and base their reporting on that, or potentially need to break out their operations across multiple subsectors and attempt to reconcile any reporting differences to provide a complete statement of operations.
- If GNFPOs continued to be fully consolidated, preparation of the consolidated financial statements of their controlling governments could be complicated by the need to make different consolidation adjustments for each subsector to convert them to the basis of reporting used by the government.
- Those who prepare and audit financial statements across multiple subsectors would need to increase their investment of time and resources to acquire and maintain the needed expertise, which would increase the cost of financial reporting.
- Some entities may place greater value on comparability within their government reporting entity as opposed to comparability within their subsector.
- If the identified subsector is comprised of a mix of government and private sector entities, does comparability within the subsector imply the potential to report under a framework other than PSAS?

In our opinion, instead of creating different reporting standards for subsectors within GNFPOs, it would be more beneficial to create additional guidance that is relevant to all subsectors.

We would be pleased to offer our assistance to the PSAB in further exploring issues raised in our response or in finding alternative solutions to meet financial statement users' needs.

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Yours truly,
MNP LLP

Jody MacKenzie

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