
THE OTTAWA REGION CHURCH & CHARITY LAW™ SEMINAR

Ottawa – February 6, 2008

New Accounting and Auditing Standards for Not-for-Profits

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	<p>The 2008 Ottawa Region CHURCH & CHARITY LAW SEMINAR</p> <p>February 6, 2008</p> <p>New Accounting and Auditing Standards for Not-for-Profits</p> <p>Brian Watson CA, Partner Watson Folkins Corey LLP</p>
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	<p>Introduction</p> <ul style="list-style-type: none"> • The Canadian Institute of Chartered Accountants regulates our profession • Handbook of Accounting and Auditing (Assurance) Standards • Our “Bible” provides authoritative guidance – the commandments of the game • Failed corporate governance, accounting abuses, and outright greed. • Enron, WorldCom, etc. necessitated raising the bar on auditing standards • Canada is becoming in synch with international standards • Numerous changes to standards in recent years
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	<p>New Accounting Standards Financial Instruments-Inclusions</p> <ul style="list-style-type: none"> • Cash • Receivables • Payables • Equity instruments (investments in bonds, GIC’s equities, etc.) • Capital, direct financing or sales -type lease (lease receivable or obligation payable) • Derivatives such as futures, forward, swap and option contracts
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	<p>Financial Instruments-Exclusions</p> <ul style="list-style-type: none"> • Inventories • Prepaid expenses • Capital assets • Leased assets • Intangible assets • Deferred revenue or deferred contributions
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	<p>Fair Value</p> <ul style="list-style-type: none"> • Previously mostly everything was measured at historical cost and amortized. • Previously it may have been necessary to occasionally write down items to market value (i.e. to fair value). • New rules require initial measurement of financial assets and financial liabilities at fair value. This is now considered the most relevant measure. • Note that prior periods figures are not restated
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	<p>Effective Dates-Implementation</p> <ul style="list-style-type: none"> • Year ends beginning on or after October 1, 2006. • Early adoption has been permitted (year ends ending on or after December 31, 2004). • Now mandatory to use the new financial instrument rules so as to be in accordance with Generally Accepted Accounting Principles (GAAP)
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Held to Maturity Financial Assets

Must meet all 4 of these **criteria**:

- Fixed or determinable payments
- Fixed maturity (excludes shares)
- Intent to hold to maturity
- Ability to hold until maturity

Initially at fair value then subsequent measurement at amortized cost using the effective rate of interest (i.e. valuations later on are often at variance from fair value)

Loans and Receivables

- Initially at fair value then subsequent measurement normally at amortized cost using the effective rate of interest.
- The discounted fair value is based on current interest rates.
- No or low-interest loans give rise to donations/grants

Held-For-Trading

- Often where frequent buying & selling for short-term profit (but any financial instrument can be so designated).
- Initially at fair value, then subsequent measurement based on fair value.
- Gains and losses are recognized in the statement of revenue and expenses (includes realized and unrealized gains and losses).
- This allows a more simplified accounting using the market values as provided on the investment statements

<div style="border: 1px solid black; width: 100%; height: 100%; display: flex; flex-direction: column; justify-content: space-between;"><div style="border: 1px solid black; width: 100%; height: 100%;"></div></div>	<p>Changes in Emphasis: The New Auditing Standards</p> <ul style="list-style-type: none">• Identify, assess and respond to risk• Addressing fraud and responding to the risk• Understanding internal control• Document, document, document• Communicating with management and those responsible for oversight (Audit Committee)
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<div style="border: 1px solid black; width: 100%; height: 100%; display: flex; flex-direction: column; justify-content: space-between;"><div style="border: 1px solid black; width: 100%; height: 100%;"></div></div>	<p>Ways to Keep Audit Fees Under Control</p> <ul style="list-style-type: none">• Proper coordination of the year end audit by management (scheduling, planning, fees discussions, preparation requirements, etc).• Thorough preparation of required year end working papers and documentation• Provide to the auditors documentation describing the nature of the organization, its programs, business plans, systems, risk assessment procedures, control environment, IT controls and response to fraud questionnaire.• Follow up with the auditors on their audit approach, identified areas of risk
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