

IFRNPO Guidance

January 2021

Response Document

PART 2: NPO-SPECIFIC FINANCIAL REPORTING ISSUES

Instructions for completion

IFR4NPO has published this document for respondents to use for submitting their comments.

This document presents all of the questions in **Part 2** of the Consultation Paper with spaces for responses.

Respondents are encouraged to complete this document electronically but are not required to use this document. They may also respond using their own comment letter format or the online survey available at: <https://www.ifr4npo.org/cp-survey/>

Comments on **Part 2** are requested by **24 September 2021**

Information requested from all respondents

Name¹:

Patricia L. O'Malley, BCom, FCPA, FCA, LLD (Hon)
Chair, Audit Committee

and

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Chief Financial Officer

on behalf of
The Salvation Army in Canada & Bermuda

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Description of your role if responding as an individual:

Click or tap here to enter text.

Description of the activities of the organisation if responding on behalf of an organisation:

The Salvation Army, an international Christian church and human services organization, operates in 132 countries around the world, through 63 administrative headquarters, such as the one in Toronto, Canada which provides oversight for the Army's activities in Canada and Bermuda.

Jurisdiction(s) to which the feedback relates:

This feedback relates to the countries of Canada and Bermuda.

Accounting basis of NPO financial reports in the jurisdiction in which you mainly work:

(i) Accrual

Please provide any additional information on accounting basis in this box.

¹ Name of person providing the response and whether this is in an individual capacity or on behalf of an organisation.

Financial reporting standard use by NPOs in the jurisdiction in which you mainly work

(viii) NPO specific standards/guidance based on National GAAP

Canadian private not for profit organizations use standards promulgated by the Accounting Standards Board and are based on Canadian GAAP for private enterprises with specific standards to deal with the unique transactions and issues faced by not for profit organizations. Canadian public sector organizations use standards promulgated by the Public Sector Accounting Board, although they are very similar to the standards for private not for profit organizations.

The country of Bermuda is also using Canadian accounting standards.

Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.

☒ *Agree*

☐ *Disagree*

This document has been designed purely to enable feedback to the IFR4NPO consultation. The responses will be used to shape the development of the IFR4NPO Guidance and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses to the consultation will be public, but personal contact information will not be disclosed. Participation in this consultation is undertaken on an entirely voluntary basis. Personal information will only be held for the purposes of the project. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at IFR4NPO@cipfa.org

Information requested only if the organisation on behalf of which you are responding is an NPO

Which International Classification of Non-Profit Organisation (ICNPO) group best describes your organisation and activities?²

4. Social services - Organizations and institutions providing human and social services to a community or target population.

We are also a Christian church and provide religious services (#10)

Rank revenue sources of your NPO in order of importance (optional)

	1	2	3	4	5	6
(i) Grants	☒	☐	☐	☐	☐	☐
(ii) Donations	☐	☒	☐	☐	☐	☐
(iii) Sale of goods and services	☐	☐	☒	☐	☐	☐
(iv) Gifts in kind	☐	☐	☐	☐	☐	☐
(v) Services in kind	☐	☐	☐	☐	☐	☐
(vi) Other	☐	☐	☐	☒	☐	☐

Investment income

Approximate total annual revenue of the NPO in US\$ (optional)

USD \$850 million

Based on the year ended March 31, 2021

² http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/CNP_WP19_1996.pdf

Specific Matters for Comment (SMC)

Introduction

Part 2 of this Consultation Paper considers a number of NPO-specific financial reporting issues. It raises questions that are relevant to the project objectives, such as balancing the needs of preparers and users and improving the transparency of NPO financial reports. However, the main focus is to assist in delivering the third project objective: Objective 3: To address specific NPO issues, which will promote the comparability of NPO financial reports.

This part of the Consultation Paper sets out how the list of NPO-specific financial reporting issues for potential consideration was originally identified, and provides a description of the nature of each issue. The criteria used for selecting the issues to be included in the Consultation Paper, and therefore probably in the initial Guidance, are also included.

In-depth analysis is provided for each of the NPO-specific financial reporting issues currently proposed for the initial Guidance. Alternative approaches that could be pursued to address each issue are included to generate feedback.

Comments are welcome on any or all of the parts in the Consultation Paper. Please note:

- There is no requirement to respond to all issues
- You may respond to all of the questions raised in the Consultation Paper or may choose to respond only about certain elements
- There is no minimum number of questions that can be addressed in a response. But, the greater the number of responses received, the richer the feedback for the project team to consider.

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Overview – Selection of NPO-specific issues

This part of the Consultation Paper sets out how NPO-specific financial reporting issues have been identified and provides a description of the nature of each issue. Criteria for selecting issues to be included in the initial Guidance are also included.

SMC 0(a) Is the list of NPO-specific financial reporting issues complete? If not, please provide information about the further issues that you believe are specific to NPOs, or issues that should be removed, together with supporting reasoning for the change(s) you propose.

Yes, it appears that the most important issues have been included in the list.

SMC 0(b) Do you agree with the criteria used to evaluate the list of issues? If not, what changes would you make and why?

Generally, we agree with the criteria, with one possible exception, which is feasibility. In our experience, the most important issues are often the most difficult to solve or get agreement on. Eliminating such issues because it might take more time or be more difficult to resolve will inevitably reduce the value of the overall results.

SMC 0(c) Do you agree with the topics prioritised for the Consultation Paper? If not, outline which topics should be added or removed and why.

We think that the list includes the most important and controversial topics, but we are concerned that attempting to deal with them all in one paper will result in one which is potentially hundreds of pages in length, and this will result in fewer useful comments being received because of the significant investment of time required on the part of responders.

We suggest that an alternative would be to tackle the list in groups of related topics and issue multiple papers over a period of time. Tackling the easier topics first would help generate interest and momentum while work continues on developing the other, more difficult topics.

For example, we suggest that there should be nothing particularly difficult about expenses or non-financial assets. Other standard setters have already addressed these issues in a reasonable fashion. On the other hand, reporting and financial statement presentation should probably be left for a later paper. In our view, there is little to be gained with attempting to get feedback on the latter issues until you have identified what gets presented.

Issue 1 – Reporting entity and control (including branches)

Reporting entities need to produce financial statements and so it is important to know what constitutes a reporting entity in the sometimes complex arrangements that surround NPOs. Understanding the accounting implications of these arrangements is key to providing complete and transparent financial information.

Some of the specific questions that this topic is seeking to address are:

- How is control defined (as NPOs may not be exposed to investee returns in a conventional sense)?
- How is a branch defined? Should all branches be accounted for as part of an NPO? What is the status of the financial statements of a branch that is not a separate legal entity?

SMC 1(a) Do you agree with the description of issue 1 – Reporting entity and control (including branches) – in the Consultation Paper? If not, why not?

Yes.

SMC 1(b) Do you agree that the list of alternative treatments that should be considered for issue 1 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Following the principle set out in Part 1 of the paper, it would seem logical to us that Alternative 2 is the correct answer. In addition, we would recommend adding the Alternative 1 guidance to deal with more complicated situations in which control or power is not so easily determined. This would allow for organizations to have the ability to choose the easier alternative if applying the basic principles provides a clear answer, but have the additional guidance available if they do not.

SMC 1(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 1? If you do not agree, please set out the changes you propose, and why these should be made.

To reiterate, we believe that the principle set out in Part 1 of the paper would lead us to always choosing the IFRS for SMEs alternative, while including additional guidance for those situations that cannot be resolved without reference to IFRS.

SMC 1(d) Please identify the alternative treatment that you favour for issue 1, and the reasons for your view.

Alternative 2, as discussed above.

Issue 2 – NPOs acting on behalf of other entities

The complex arrangements that surround NPOs may mean that in some instances an NPO is acting on behalf of another entity. It can be difficult to determine whether an NPO is merely acting in an administrative role and what its accountability arrangements are.

Some of the specific questions that this topic is seeking to address are:

- When is an NPO acting as an agent and when is it acting as principal?
- Is any disclosure required of the gross amounts relating to agency activity or assets in custody (including cost pass through and assets held on behalf of another entity/person)?

SMC 2(a) Do you agree with the description of issue 2 – NPOs acting on behalf of other entities? – in the Consultation Paper? If not, why not?

Yes.

SMC 2(b) Do you agree that the list of alternative treatments that should be considered for issue 2 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Yes.

SMC 2(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 2? If you do not agree, please set out the changes you propose, and why these should be made.

Yes.

SMC 2(d) Please identify the alternative treatment that you favour for issue 2, and the reasons for your view.

Alternative 2 is preferred. As noted earlier, we believe that all of these issues should be consistent in adopting the IFRS for SMEs approach, with additional guidance provided for the more complex issues that might arise.

We realize that one of the disadvantages of this approach is that it may lead to inconsistent treatment; however, we suspect that in many cases, the risk and reward approach will lead to similar conclusions about revenue recognition as the control approach. Similar to the way we approached issue 1, we suggest that the basic guidance should provide for a risk and rewards assessment, and where this assessment fails to deliver a clear answer, additional guidance could be provided to assess control.

SMC 2(e) Additional disclosures are proposed under all alternatives for issue 2. Outline any challenges you would anticipate with the proposed disclosures? Are there additional disclosure that might be more relevant?

We do not anticipate any particular challenges with the proposed disclosure.

Issue 3 – Non-exchange revenue

NPOs receive non-exchange revenue from a variety of different resources. NPOs may rely on grants, cash donations, donations of individual items (gifts in-kind), donations of services or volunteer time (services in-kind) and bequests and endowments in order to meet their objectives.

Non-exchange revenue transactions raise specific issues. These issues relate to the recognition, measurement and disclosure of non-exchange revenue.

SMC 3(a) Do you agree with the description of issue 3 – Non-exchange revenue? – in the Consultation Paper? If not, why not?

Yes.

SMC 3(b) Do you agree that the list of alternative treatments that should be considered for issue 3 is exhaustive? If not, please describe your additional proposed practical alternatives, and explain why they should be considered.

We believe that, although it may be a more challenging issue, not dealing with accounting for bequests which can be a significant source of revenue to many not-for-profit organizations may be short-sighted if the proposed standards are to be widely accepted and used. We would also maintain that the issues around accounting for bequests are similar to the issues to be faced in dealing with other forms of non-exchange revenue.

SMC 3(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 3? If you do not agree, please set out the changes you propose, and why these should be made.

Yes.

SMC 3(d) Please identify the alternative treatment that you favour for issue 3, and the reasons for your view.

Again, we start with Alternative 1, IFRS for SMEs. Further, we think it is important that the guidance be such that it results in the accounting for the transaction to be consistent by provider of the funds and the recipient of the funds. In other words, if the guidance results in the grantor recognizing an expense, it should not allow the grantee to defer recognition. If the transaction results in an asset for one of the organizations that is party to the transaction, it should not allow the other organization to recognize an asset. If the grantor doesn't have an asset, then the grantee cannot have a liability.

SMC 3(e) If you favour an alternative other than alternative 4 for issue 3, do you consider that the exceptions to the recognition and measurement of gifts in-kind and services in-kind should be available under your preferred option?

Yes, these exceptions should be allowed, provided they meet the cost/benefit test.

SMC 3(f) Are there any practical considerations, for example impacts on tax or audit thresholds, or questions that arise in implementing your preferred option for issue 3?

No.

Issue 4 – Grant expenses

Many NPOs make grants to other organisations to further their own objectives. This topic is primarily concerned with what expense should be recognised and when, as well as related disclosures.

SMC 4(a) Do you agree with the description of issue 4 – Grant expenses? – in the Consultation Paper? If not, why not?

Yes. The only thing we would add is that the treatment taken with respect to Issue 3 must be consistent with that taken with respect to Issue 4. They are two sides of the same issue, and the alternatives chosen should be consistent so that the treatments followed by the grantor and grantee are consistent, as noted above in our response to SMC 3 (d).

SMC 4(b) Do you agree that the list of alternative treatments that should be considered for issue 4 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Yes.

SMC 4(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 4? If you do not agree, please set out the changes you propose, and why these should be made.

Yes.

SMC 4(d) Please identify the alternative treatment that you favour for issue 4, and the reasons for your view.

We agree with Alternative 2 --- follow IFRS for SMEs with additional guidance to incorporate the performance obligation approaches proposed in ED72 by IPSASB

Issue 5 – Measurement of non-financial assets held for social benefit

Tangible and intangible assets that are held for use in delivering the NPO's objectives and not for a financial return is a specific issue for NPOs, particularly where there is a need to impair them.

This topic is seeking to address matters related to:

- How assets are measured initially and subsequently
- Impairment, including when an impairment is recognised, how it is measured and what disclosures should be made.

SMC 5(a) Do you agree with the description of issue 5 – Measurement of non-financial assets held for social benefit? – in the Consultation Paper? If not, why not?

Yes.

SMC 5(b) Do you agree that the list of alternative treatments that should be considered for issue 5 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Yes

SMC 5(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 5? If you do not agree, please set out the changes you propose, and why these should be made.

Yes.

SMC 5(d) Please identify the alternative treatment that you favour for issue 5, and the reasons for your view.

We favour alternative 3 for this issue. We do not see any merits to the revaluation model for not-for-profit organizations. The additional cost and complexity associated with revaluation accounting for such organizations cannot be justified in terms of the benefits derived. We are agreeable to supplementary disclosure when there are circumstances that readers of the financial statements should be aware of to help them evaluate the financial position of the organization. This is a case where the unique circumstances of not-for-profit organizations warrants a departure from IFRS for SMEs.

SMC 5(e) Do you agree that land and buildings (or sub classifications thereof) used to provide services should be measured using the revaluation model and specifically a measurement which reflects the 'value in use' or the operational capacity to an NPO? Could it provide useful information to users?

No, we do not believe that land and buildings used to provide services in a not-for-profit organization should be measured using the revaluation model, except to the extent to which the assets have been impaired. In that situation, we believe that the 'value in use' concept is likely the best way to do that when assets do not generate inbound cash flows.

Issue 6 – Inventory held for use or distribution

Inventory held for use or distribution to service users has also been identified as a specific issue for NPOs, particularly where the inventory has been donated rather than purchased.

Some of the specific questions that this topic is seeking to address are:

- the initial and subsequent measurement of low value donated goods
- the measurement of perishable inventories and what disclosures should be made about these
- impairment, including when an impairment is recognised, how it is measured and what disclosures should be made.

SMC 6(a) Do you agree with the description of issue 6 – Inventory held for use or distribution? – in the Consultation Paper? If not, why not?

Yes.

SMC 6(b) Do you agree that the list of alternative treatments that should be considered for issue 6 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Yes.

SMC 6(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 6? If you do not agree, please set out the changes you propose, and why these should be made.

Yes.

SMC 6(d) Please identify the alternative treatment that you favour for issue 6, and the reasons for your view.

We prefer Alternative 1. This is generally in line with our view that we should adopt IFRS for SMEs, which will meet the needs of most not-for-profit organizations, with additional guidance for those transactions and circumstances that are unique to these organizations, particularly more complex organizations.

Issue 7– Presentation of financial statements (including fund accounting)

The format and content of financial statements including revenue and expenses is fundamental to how the information is presented to stakeholders. This presentation is particularly important when revenue is restricted or can only be used for particular purposes.

Some of the specific questions that this topic is seeking to address are:

- How should financial statements be presented to help the user's understanding of an NPO's activities? Should there be disclosure of material categories of income and expenses and/or transactions?
- How should unrestricted and restricted funds that can be used for specific NPO purposes be presented in the main financial statements and notes (including reserves)? How does this align with donor reporting requirements? What is the role of fund accounting?

SMC 7(a) Do you agree with the description of issue 7 – Presentation of financial statements? – in the Consultation Paper? If not, why not?

Yes.

SMC 7(b) Do you agree that the list of alternative treatments that should be considered for issue 7 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Yes.

SMC 7(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 7? If you do not agree, please set out the changes you propose, and why these should be made.

Yes, generally.

SMC 7(d) Please identify the alternative treatment that you favour for issue 7, and the reasons for your view. In your response please consider the presentation of unrestricted reserves allocated for internal purposes.

Our general view is that Alternative 1 is likely the best approach, although we believe that the choice of financial statement presentation alternatives depends, to a certain degree, on the answers reached for other issues, such as grant expenses and non-exchange revenue. We do not believe that all organizations should be compelled to use fund accounting, as it often results in more complex financial statements that readers find difficult to understand. We do believe, however, that at a minimum, organizations should differentiate between net assets that are available at the full discretion of the organization, whether internally restricted by the board for specific purposes, or unrestricted, and assets that are subject to donor or funder restrictions.

We also think that if fund accounting is used, there must be clear guidance on ensuring that interfund receivables and payables are dealt with appropriately. For example, there is no point having an asset in the capital fund from the operating fund if the operating fund cannot discharge its liability. In our view, interfund assets and liabilities should be eliminated to provide a useful view of the financial position of the organization as a whole.

SMC 7(e) The term 'statement of financial performance' is used in the Consultation Paper to describe the statement that contains an NPO's revenues and expenses. Do you agree with the use of this term? If not, describe your preferred term and explain your reasoning.

We have no strong views about this issue. The term, 'statement of financial performance' appears to work as well as any other options.

Issue 8 – Classification of expenses – function or nature?

NPOs can present their expenses by nature or by function, with at least one jurisdiction having a presentation allowing a hybrid of the two.

Some of the specific questions that this topic is seeking to address are:

- Should there be a standardised format and if so, what should the primary headings be?
- Should the primary analysis of expenses be based on function or nature?

SMC 8(a) Do you agree with the description of issue 8 – Classification of expenses? – in the Consultation Paper? If not, why not?

Yes.

SMC 8(b) Do you agree that the list of alternative approaches that should be considered for issue 8 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

No.

We believe that organizations should be free to choose which method makes the most sense for them and their stakeholders. If that is to report expenses by function, they should also be required to provide disclosure in the notes to summarize expenses by nature. However, if their preferred method is to report expenses by nature, they should not be required to also disclose them by function unless they wish to do so, or need to do so to meet funder or regulatory authority requirements.

In other words, classification by nature is required for everyone, but those who choose to also report by function would also have the choice of which method is included in the face of the statement of financial performance and which is disclosed in notes to the financial statements.

To require organizations to classify by function introduces the possibility of complex and costly allocations that are not warranted from a cost/benefit perspective. If an organization determines that its stakeholders are not requiring reporting on a functional basis, there is no reason for accounting standards to compel them to do so.

SMC 8(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 8? If you do not agree, please set out the changes you propose, and why these should be made.

Yes.

SMC 8(d) Please identify the alternative approach that you favour for issue 8, and the reasons for your view. When considering your preferred approach please comment on which alternative:

(i) provides the best information about the key components of expenses or drivers of performance/activities?

(ii) most closely matches how management reports internally and the way the operation is run (to assist with the cost/benefit assessment)

(iii) whether the alternatives link to any key ratios that might be given in the narrative reporting (and therefore should be something that can be disclosed and reconciled to)

(iv) whether the alternatives permit accountability.

As outlined above in our response to SMC 8 (b), we believe that organizations should be free to choose whichever classification method is most appropriate for the statement of financial performance, and if that is the functional method, then they should also be required to provide note disclosure of expenses by nature.

We currently report using a largely functional approach, although some expenses, such as amortization of capital assets, are not allocated to functions. At the same time, we provide note disclosure based on object (e.g. compensation, occupancy, etc.). Internal reporting is largely along functional lines.

Reporting along functional lines allows readers to evaluate how much of the organization's resources are dedicated to programs and services, compared to administration and fundraising, which appears to be an important piece of information for donors to Canadian charitable organizations despite our concern that comparisons across organizations are not as straightforward as they appear.

Our management commentary which accompanies the financial statements has this to say in attempting to provide an appropriate understanding of these issues:

"Many stakeholders are interested in how much a charity spends on its administration and management versus programs and services. The Salvation Army currently classifies all activities and functions at the operating unit level as programs and services. Headquarters operating costs reflect the administrative activities performed at the territorial and divisional headquarters. Over the five-year period ended March 2021, territorial and divisional headquarters operating costs, other than those expenses related directly to program and services provision or support, such as the development of program resources, represented, on average, 6.1% of total expenses.

While this is low by comparison to many other charities, The Salvation Army cautions stakeholders with respect to the conclusions they may draw based on this single indicator. First, all ministry unit operating costs are classified into a specific program or service area; as a result, there are some costs of administration that are currently classified as charitable programs and services. Second, while it is generally true that costs of administration represent an indicator of overall efficiency, it does not necessarily measure effectiveness of program outcomes.

In addition, this indicator does not provide a reasonable comparator across organizations. Typically, smaller organizations lack the economies of scale that help larger organizations achieve lower ratios, while fundraising organizations will tend to have lower ratios than charities delivering services.

Administration and management functions are as essential to effective outcomes as direct programs and

services. Without them, charities such as The Salvation Army would achieve much less. As a result, undue focus on minimizing administration and management costs can have a negative impact on operations including service delivery.

The Salvation Army is committed to ensuring that its administrative costs remain appropriate for the size and complexity of the organization and to effectively support its varied programs and service delivery.”

This commentary helps to explain why we think that compelling organizations to report expenses by function will not pass the cost/benefit test for many organizations, particularly small organizations. Unless they are required to do so by regulators or because it is a common expectation of funding agencies and donors in their jurisdiction, compelling them to report this way simply introduces unnecessary and complex allocations that will not result in greater comparability across organizations.

SMC 8(e) Do you think that the alternatives for issue 8 provide the right balance between information presented on the face of the performance statement or in the notes?

Yes.

SMC 8(f) Would the allocation of expenses to functions outlined in issue 8 be so arbitrary that it would not provide a sufficiently faithful representation of the composition of an entity's functions?

No, not in most cases.

SMC 8(g) Are there any practical questions that arise in implementing your preferred option for issue 8?

We do not believe so.

Issue 9 – Fundraising costs

Raising funds is critical to the existence of many NPOs. Fundraising activities can take many forms and there is a question about where to report the associated costs.

Some of the specific questions that this topic is seeking to address are:

- How should the costs of fundraising be defined (for example, whether to include business development spend and/or overheads)?
- How should the costs of fundraising be recognised and/or presented (i.e. on a gross basis or netted against income)?

SMC 9(a) Do you agree with the description of issue 9 – Fundraising costs? – in the Consultation Paper? If not, why not?

Yes.

SMC 9(b) Do you agree that the list of alternative approaches that should be considered for issue 9 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Yes.

SMC 9(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting approach for issue 9? If you do not agree, please set out the changes you propose, and why these should be made.

Yes.

SMC 9(d) Please identify the alternative approach that you favour for issue 9, and the reasons for your view.

We believe that Alternative 2 presents the best approach, with IFRS for SMEs as the starting point. We do not believe that Alternative 3 would be effective. There is so much diversity among organizations (e.g. operating charities versus fundraising charities; large organizations with diverse fundraising programs and small organizations with rudimentary approaches; organizations that fulfil an education/awareness part of their mission in joint activities with their fundraising program versus charities that seek to raise funds for their mission) that the work involved in following this alternative could prove to be costly, complicated, and at the end of the day, still not result in comparable results across organizations.

In the management commentary which accompanies our financial statements, we articulate the reasons why we believe that simple comparisons of fundraising expenses to revenues are not particularly useful, particularly when attempting to compare organizations, as follows:

“For 139 years, faithful donors have helped The Salvation Army carry on its tradition of caring for vulnerable men, women and children in Canada, Bermuda and around the world. The Salvation Army is deeply grateful for their generosity and for the trust they have shown in us to use their investment wisely. During the fiscal year ended March 31, 2021, charitable donations to The Salvation Army totalled \$244.2 million, compared to \$238.5 million the previous year, representing an increase of 2%.

Most fundraising costs are incurred by the public relations and development department. During the year, these costs were \$24.6 million, compared to \$23.0 million last year. As a proportion of charitable donations, these costs represented 10.0%.

It should be noted, however, that all ministry unit operating costs are classified into a specific program or service area; as a result, there are some fundraising costs incurred at the ministry unit level that are classified as charitable programs and services.

The Salvation Army's results compare favourably to the Canada Revenue Agency upper limit of 35% and by comparison to similar charities. At the same time, it should be recognized that the "fundraising costs as a proportion of charitable donations" measure has several limitations as an indicator of effectiveness for a number of reasons.

First, no donations of materials or services are recognized in these financial statements, even though costs are incurred in obtaining these donations.

Second, as the name implies, some of the activity these costs represent relates to general marketing and communication functions, rather than fundraising activities.

Third, the costs of the planned giving program and expenses related to the generation of planned gifts, particularly legacies and estates, are generally not incurred in the same year in which the revenues occur.

Fourth, fundraising effectiveness may not be optimized by low fundraising costs as a greater fundraising investment may yield proportionately larger donations. The Salvation Army reviews its fundraising efforts on an ongoing basis with an objective to find the right balance between effectiveness and efficiency of its fundraising activities."

SMC 9(e) Do you agree that all fundraising costs should be presented gross? If not, please provide examples of where this might not apply and the reasons for your view.

Yes. There is, in our view, no good rationale for netting fundraising revenues and expenses any more than for any other types of revenue and expenses. Complete information is needed for readers to obtain a complete understanding of the financial performance of the organization.

Issue 10 – Narrative reporting

Non-financial information, which includes management commentary and other forms of narrative reporting, is relevant to NPOs, in demonstrating accountability and stewardship to stakeholders and civil society. For many NPOs, the financial statements may not capture many of the most important aspects of performance.

Some of the specific questions that this topic is seeking to address are:

- What should the narrative/non-financial reporting requirements be for NPOs?
- Should ratios be required for narrative reporting? If they are included, how should costs be classified between support costs and those attributable to operational delivery?

SMC 10(a) Do you agree with the description of issue 10 –Narrative reporting? – in the Consultation Paper? If not, why not?

Yes.

SMC 10(b) Do you agree that the list of alternative treatments that should be considered for issue 10 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.

Yes.

SMC 10(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 10? If you do not agree, please set out the changes you propose, and why these should be made.

Yes.

SMC 10(d) Please identify the alternative treatment that you favour for issue 10, and the reasons for your view.

We think that Alternative 3 presents the best option.

SMC 10(e) Should narrative reporting guidance be set at the level of a framework and principles, rather than any more specific reporting requirements or recommendations? If you disagree, what additional guidance on what specific reporting requirements or recommendations would be beneficial?

We think that narrative reporting guidance should be set at the level of a framework and principles, along with suggested 'best practice' recommendations, rather than obligatory standards that all organizations must follow.

This would allow organizations to adopt the framework and principles, while still leaving freedom with respect to the specific information disclosed so that it can be tailored to the local reporting environment.

We also think that the narrative reporting should accompany the financial statements as a separate document and not be brought under the scope of the audit opinion on the financial statements. The financial statements should continue to explain where resources come from and what they spent on, with the narrative reporting document providing supplementary information that is required for readers of the financial statements to obtain a more fulsome view of the organization and whether it is accomplishing its purposes.