Learning Objective

• Understand the Canadian Public Sector Accounting Standards framework
• Gain appreciation for how and why certain PSAS differ from ASPE and/or IFRS
• Look specifically in greater depth at those PSAS that differ most from ASPE/IFRS or do not have an equivalent in ASPE/IFRS
• Obtain understanding of financial reporting under PSAS and objectives of that reporting
The Modules

❖ Module 1 – Introduction to PSAS and Conceptual Framework
❖ Module 2 – Controlled Entities, Consolidation, Government Business Enterprises, Government Partnerships, Private/Public Partnerships
❖ Module 3 – The Revenue Standards: Revenue, Government Transfers, Tax Revenue, Restricted Assets and Revenues
❖ Module 4 – Environmental Liability Standards: Contaminated Sites, Asset Retirement Obligations, Other contingencies
❖ Module 5 – Financial Instruments, Foreign Exchange, Remeasurement Gains and Losses

The Modules

❖ Module 7 – Contractual Rights and Obligations, Related Party Transactions, Inter-Entity Transactions, Restructuring Transactions
❖ Module 8 – Pensions and Employee Future Benefits, Pensions Project
❖ Module 9 – Loans Receivable/Loan Guarantees
❖ Module 10 – GAAP Hierarchy, Accounting Changes, First-time Adoption, Public Sector Guidelines, SORPs
❖ Module 11 – City of Errors financial statement
❖ Module 12 - General Discussion and Question Period
Module 1 – Introduction to PSAS and Conceptual Framework

The PSAS Conceptual Framework

• Introduction to public sector accounting standards
• SECTION PS 1000 Financial Statement Concepts
• SECTION PS 1100 Financial Statement Objectives
• SECTION PS 1150 Generally Accepted Accounting Principles
• SECTION PS 1201 Financial Statement Presentation
Introduction to Public Sector Accounting Standards

- Types of organizations that use PSAS
  - Senior governments (Federal and Provincial)
  - First Nations
  - Local governments (cities, towns, counties, improvement districts)
  - If controlled by a government:
    - Universities/colleges
    - Hospitals and health care organizations
    - Crown corporations and agencies
    - Others
Introduction to Public Sector Accounting Standards – Types of Government Organizations

- Government component
- Government organization
  - Government business enterprise (GBE)
  - Government not-for-profit organization (GNPO)
  - Other government organization (OGO)

Introduction to Public Sector Accounting Standards – Types of Government Organizations

- Government partnership
- Government business partnership
PS1000 – Financial Statement Concepts: Objectives

• A government's financial statements must provide information that describes liabilities and financial assets, its non-financial assets that are available for use in providing future services, the cost of using its economic resources in the delivery of services, as well as information about investing and financing activities and potential assets and liabilities.

PS1000 – Financial Statement Concepts: Objectives

• This information needs to highlight measures (for example, net debt and net economic resources) that help users assess whether the government's financial position has improved or deteriorated and explain the changes in financial position.
PS1000 – Financial Statement Concepts: Objectives

- The information reported in financial statements must also reflect the full nature and extent of the government's resources, obligations and financial affairs
- Benefit vs. Cost Constraint highlighted

PS1000 – Financial Statement Concepts: Qualitative Characteristics

- Qualitative
  - Relevance
    - Predictive Value & feedback value
    - Accountability value
    - Timeliness
  - Reliability
    - Representational faithfulness
    - Completeness
    - Neutrality
    - Conservatism
    - Verifiability
- Quantitative
  - Comparability
    - Understandability

PSAS – Review of the Standards
PS1000 – Financial Statement Concepts: Elements

• **Assets** are economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained. Assets have three essential characteristics:
  a) they embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows;
  b) the public sector entity can control the economic resource and access to the future economic benefits; and
  c) the transaction or event giving rise to the public sector entity's control has already occurred.

PS1000 – Financial Statement Concepts: Elements

• **Financial assets** are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. A financial asset is any asset that is:
  a) cash;
  b) a realizable asset that is convertible to cash;
  c) a contractual right to receive cash or another financial asset from another party;
  d) a contractual right to exchange financial instruments with another party under conditions that are potentially favourable to the government;
e) an equity instrument of another entity;
f) an investment in a government business enterprise or government business partnership;
g) a financial claim on an outside organization or individual; or
h) an inventory or item for sale

● **Non-financial assets** are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:
  a) are normally employed to deliver government services;
  b) may be consumed in the normal course of operations; and
  c) are not for sale in the normal course of operations.
PS1000 – Financial Statement
Concepts: Elements

• **Tangible capital assets** are non-financial assets having physical substance that:
  a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
  b) have useful economic lives extending beyond an accounting period;
  c) are to be used on a continuing basis; and
  d) are not for sale in the ordinary course of operations.

PSAS – Review of the Standards

**SLIDE 1-14**

PS1000 – Financial Statement
Concepts: Elements

• **Liabilities** are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities have three essential characteristics:
  a) they embody a duty or responsibility to others, leaving a government little or no discretion to avoid settlement of the obligation;
  b) the duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and
  c) the transactions or events obligating the government have already occurred.

PSAS – Review of the Standards

**SLIDE 1-15**
**PS1000 – Financial Statement Concepts: Elements**

- **Revenues**, including gains, are *increases in economic resources*, either by way of increases of assets or decreases of liabilities, resulting from the operations, transactions and events of the accounting period.
- Revenues do not include borrowings, such as proceeds from debt issues or transfers from other governmental units in the government reporting entity or amounts collected on behalf of others.

**PS1000 – Financial Statement Concepts: Elements**

- **Expenses**, including losses, are *decreases in economic resources*, either by way of decreases in assets or increases in liabilities, resulting from the operations, transactions and events of the accounting period.
PS1100 – Financial Statement Objectives

• Objective #1 (PS1100.16)
  – Provide an accounting of financial affairs and resources which the government controls, including the activities of its agencies and enterprises

• Objective #2 (PS1100.20)
  – Present information to describe financial position at the end of the fiscal period that aid in evaluating
    • Ability to finance activities and meet its obligations
    • Ability to provide future services

PS1100 – Financial Statement Objectives

• Objective #3 (PS1100.36)
  – Provide information to describe changes in a government’s financial position, useful in evaluating
    • Sources, allocations and consumption of resources
    • How activities have affected net debt
    • How the government financed its activities and how it met its cash requirements
PS1100 – Financial Statement Objectives

• Objective #4 (PS1100.61)
  – Financial Statements should demonstrate accountability for resources, obligations and financial affairs, providing useful information in evaluating
    • Financial results of managing its resources, obligations, and financial affairs
    • Assessing whether resources were administered within limits established by legislation

PSAS Project Concepts Underlying Financial Performance

• PSAB has a project underway to update the Conceptual Framework
• Will replace current PS1000 and PS1100 with 10 chapters:
  – Chapter 1: Introduction to the Conceptual Framework
  – Chapter 2: Characteristics of Public Sector Entities
  – Chapter 3: Financial Reporting Objective
  – Chapter 4: Role of Financial Statements
  – Chapter 5: Financial Statement Foundations
  – Chapter 6: Financial Statement Objectives
  – Chapter 7: Qualitative Characteristics and Related Considerations
  – Chapter 8: Elements of Financial Statements
  – Chapter 9: Recognition and Measurement
  – Chapter 10: Presentation Concepts
PSAS Project
Concepts Underlying Financial Performance

• The new conceptual framework is much deeper and more explanatory than the existing framework, but concepts themselves are not changed significantly
• Would result in changes to financial reporting:
  – Net debt not on Statement of Financial Position but to separate statement
  – Net debt calculation revised
  – “Accumulated Surplus” wording lessened
  – Potential further risks and uncertainties disclosure
• Door is “partially opened” towards intangibles as puts decision at a standards level rather than a conceptual level

PSAS – Review of the Standards
SLIDE 1-22

PS1201 – Financial Statement Presentation

• General Reporting Principles
  – Financial statements should be clearly identified and include acknowledgement of the government’s responsibility for their preparation
  – Notes and schedules are integral and should be clearly identified
  – Notes and schedules should not be a substitute for proper accounting

PSAS – Review of the Standards
SLIDE 1-23
PS1201 – Financial Statement Presentation

• Present any information required for fair presentation of
  – Financial position
  – Results of operations
  – Remeasurement gains and losses
  – Change in net debt
  – Cash flow
• Professional judgment may be required to ensure fair presentation
• Form, terminology, and classification should be readily understandable

PS1201 – Financial Statement Presentation

• Present prior period figures
• Basis for determining reported amounts should be applied consistently and disclosed if not self-evident
• Issued on a timely basis
• Present substance of transactions and events
PS1201 – Financial Statement Presentation – Financial Position

- Should report net debt and accumulated surplus together as an explanation of financial position
- Report difference of liabilities and financial assets as measure of net debt (or net financial assets)
- Below net debt, report non-financial assets and sum net debt and non-financial assets to reach accumulated surplus/deficit
- When amounts are required to be reported on the statement of remeasurement gains/losses, must disclose
  - Accumulated surplus/deficit from operations
  - Accumulated remeasurement gains and losses

PS1201 – Financial Statement Presentation – Financial Position

- Liabilities
  - Segregate by main classification
  - Disclose nature and terms
- Financial Assets
  - Segregate by main classification
  - Disclose nature and terms
  - Valuation allowances should be used to reflect net recoverable value or other appropriate value
• Non-financial assets
  – Segregate by main classification
    • Tangible capital assets, inventories, prepaids
  – Disclose the nature of non-financial assets employed to provide future services
  – Disclose that all intangibles and items inherited by right of the Crown are not recognized in the financial statements
• Report revenues by significant type
  – Excluding remeasurement gains
• Report expenses by function or program
  – Excluding remeasurement losses
  – Expenses should be disclosed by object (in notes)
• Difference between revenues and expenses is the operating surplus or deficit
• Report accumulated surplus/deficit from operations at the beginning and end of the period
• Must include budget information (first budget for year)
Sample Disclosure of Expenses by Object

Expenses are reported by function and disclosed by object

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and benefits</td>
<td>$X,XXX</td>
<td>$X,XXX</td>
</tr>
<tr>
<td>Goods and services</td>
<td>X,XXX</td>
<td>X,XXX</td>
</tr>
<tr>
<td>Amortization</td>
<td>X,XXX</td>
<td>X,XXX</td>
</tr>
<tr>
<td>Interest</td>
<td>X,XXX</td>
<td>X,XXX</td>
</tr>
<tr>
<td>Other expenses</td>
<td>X,XXX</td>
<td>X,XXX</td>
</tr>
<tr>
<td></td>
<td>$X,XXX</td>
<td>$X,XXX</td>
</tr>
</tbody>
</table>

PS1201 – Financial Statement Presentation – Net Debt

- The statement of change in net debt should report the extent to which the expenditures of the accounting period are met by the revenues recognized in operations for the period and the extent to which net debt changed due to net remeasurement gains and losses in the accounting period.
- The statement of change in net debt should report the acquisition of tangible capital assets in the accounting period as well as other significant items that explain the difference between the operating surplus or deficit for the accounting period and the change in net debt in the period.
PS1201 – Financial Statement Presentation – Cash Flows

- Report how cash was generated and used
- Classify by operating, capital, investing and financing
- May use direct or indirect method
- Some options for net reporting allowed in limited circumstances
- Disclose components of cash and cash equivalents and policy for determination
## PS1201 – Financial Statement Presentation – Cash Flows

### Operating Transactions

<table>
<thead>
<tr>
<th>Item</th>
<th>FY 2023/24</th>
<th>FY 2022/23</th>
<th>FY 2021/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales/Revenue (in billions)</td>
<td>2,722</td>
<td>2,111</td>
<td>1,709</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>2,350</td>
<td>1,932</td>
<td>1,514</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>371</td>
<td>34</td>
<td>26</td>
</tr>
<tr>
<td>Gain on non-operating activities</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net sales/Revenue</td>
<td>1,259</td>
<td>2,477</td>
<td>3,043</td>
</tr>
<tr>
<td>Net income/Net income before extraordinary items</td>
<td>359</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td>Net income/Net income after extraordinary items</td>
<td>334</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td>Other comprehensive income/Net income after extraordinary items</td>
<td>(1,710)</td>
<td>(2,220)</td>
<td>(2,353)</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>(1,374)</td>
<td>(2,197)</td>
<td>(2,333)</td>
</tr>
</tbody>
</table>

### Capital Transactions

<table>
<thead>
<tr>
<th>Item</th>
<th>FY 2023/24</th>
<th>FY 2022/23</th>
<th>FY 2021/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from issuance of debt</td>
<td>1,526</td>
<td>1,026</td>
<td>826</td>
</tr>
<tr>
<td>Proceeds from issuance of equity</td>
<td>120</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Payment of debt</td>
<td>1,345</td>
<td>900</td>
<td>732</td>
</tr>
<tr>
<td>Payment of equity</td>
<td>101</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Net increase/decrease in common stock</td>
<td>181</td>
<td>901</td>
<td>722</td>
</tr>
</tbody>
</table>

### Investment Transactions

<table>
<thead>
<tr>
<th>Item</th>
<th>FY 2023/24</th>
<th>FY 2022/23</th>
<th>FY 2021/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of investment property</td>
<td>122</td>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>Proceeds from sale of investment securities</td>
<td>120</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Proceeds from sale of investment assets</td>
<td>101</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Net increase/decrease in investment properties</td>
<td>181</td>
<td>901</td>
<td>722</td>
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</tbody>
</table>

### Summary Financial Statements

<table>
<thead>
<tr>
<th>Item</th>
<th>FY 2023/24</th>
<th>FY 2022/23</th>
<th>FY 2021/22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cash flows</td>
<td>4,744</td>
<td>6,634</td>
<td>5,952</td>
</tr>
<tr>
<td>Less: total cash outflows carried forward from previous page</td>
<td>(72)</td>
<td>(42)</td>
<td>(20)</td>
</tr>
<tr>
<td>Net income/Net income before extraordinary items</td>
<td>334</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
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<td>(2,353)</td>
</tr>
<tr>
<td>Net increase/decrease in common stock</td>
<td>(1,374)</td>
<td>(2,197)</td>
<td>(2,333)</td>
</tr>
</tbody>
</table>

### Financial Information

- **PS1201 – Financial Statement Presentation – Cash Flows**
- **PSAS – Review of the Standards**
- **SLIDE 1-35**

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**PS1201 – Financial Statement Presentation – Cash Flows**

### Summary Financial Statements

**Consolidated Statement of Cash Flow**

**Continued for the Fiscal Year Ended March 31, 2018**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY 2023/24</th>
<th>FY 2022/23</th>
<th>FY 2021/22</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows</strong></td>
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<td>6,634</td>
<td>5,952</td>
</tr>
<tr>
<td><strong>Operating Activities</strong></td>
<td>3,778</td>
<td>5,351</td>
<td>4,558</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td>181</td>
<td>901</td>
<td>722</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td>4,744</td>
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**Net income/Net income before extraordinary items**

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<thead>
<tr>
<th>Item</th>
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</tr>
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<td>901</td>
<td>722</td>
</tr>
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**Summary Financial Statements**

**Consolidated Statement of Cash Flow**

**Continued for the Fiscal Year Ended March 31, 2018**

<table>
<thead>
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<th>FY 2023/24</th>
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**Net income/Net income before extraordinary items**

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**Summary Financial Statements**

**Consolidated Statement of Cash Flow**

**Continued for the Fiscal Year Ended March 31, 2018**

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<tr>
<th>Category</th>
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<td>5,952</td>
</tr>
</tbody>
</table>

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### Financial Information

- **PS1201 – Financial Statement Presentation – Cash Flows**
- **PSAS – Review of the Standards**
- **SLIDE 1-36**
The statement of remeasurement gains and losses should report:

a) the accumulated remeasurement gains and losses at the beginning of the period;

b) remeasurement gains and losses during the period, distinguishing between:
   i. amounts arising during the period; and
   ii. amounts reclassified during the period to the statement of operations;

c) any other comprehensive income that arises when a government includes the results of government business enterprises and government business partnerships in its summary financial statements; and

d) the accumulated remeasurement gains and losses at the end of the period.

### Consolidated Statement of Remeasurement Gains and Losses

For the year ended March 31, 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>Note</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Remeasurement Gains, Beginning of Year</td>
<td></td>
<td>27,223</td>
<td>20,172</td>
</tr>
<tr>
<td>Unrealized Gains (Losses) Attributable to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio investments</td>
<td></td>
<td>4,801</td>
<td>16,236</td>
</tr>
<tr>
<td>Designated fair value financial instruments</td>
<td></td>
<td>(2,296)</td>
<td>(284)</td>
</tr>
<tr>
<td>Foreign currency translation</td>
<td></td>
<td>260</td>
<td>434</td>
</tr>
<tr>
<td>(Gains) Losses Reclassified to Consolidated Statement of Operations</td>
<td></td>
<td>(3,334)</td>
<td>(5,444)</td>
</tr>
<tr>
<td>Portfolio investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designated fair value financial instruments</td>
<td></td>
<td>5,214</td>
<td>(4,408)</td>
</tr>
<tr>
<td>Foreign currency translation</td>
<td></td>
<td>78</td>
<td>283</td>
</tr>
<tr>
<td>Other Comprehensive Income - Great Northern Way Campus Trust</td>
<td>9</td>
<td>272</td>
<td>332</td>
</tr>
<tr>
<td>Net Remeasurement Gains for the Year</td>
<td></td>
<td>4,995</td>
<td>7,051</td>
</tr>
<tr>
<td>Accumulated Remeasurement Gains, End of Year</td>
<td></td>
<td>32,218</td>
<td>27,223</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Presentation of Budget Information

• PSAB is the only accounting framework that requires presentation of originally planned results
• PS 1201.132 - .133
• In some situations the scope of financial activity reported in the fiscal plan is not the same as that reported in the financial statements (PS 1201.132), in addition there are situations when the fiscal plan is not prepared on a basis consistent with that used to report actual results (PS 1201.133)

Module 2 – Controlled Entities, Consolidation, Government Business Enterprises, Government Partnerships, Private/Public Partnerships
PS 1300 – Government Reporting

Entity

• Key Concept: Any entity reporting under PSAS must include all entities which it controls
• The information is to be included by method of consolidation in all cases except:
  – Government business enterprises and government business partnerships for which modified equity accounting is used
  – Government partnerships for which proportionate consolidation is used

Entity – Control Factors

• Persuasive evidence of control:
  a) government has the power to unilaterally appoint or remove a majority of the members of the governing body of the organization;
  b) government has ongoing access to the assets of the organization, has the ability to direct the ongoing use of those assets, or has ongoing responsibility for losses;
  c) government holds the majority of the voting shares or a "golden share" that confers the power to govern the financial and operating policies of the organization; and
  d) government has the unilateral power to dissolve the organization and thereby access its assets and become responsible for its obligations.
• Providing all or majority of funding is **NOT** an indicator of control
• Secondary indicators of control:
  a) provide significant input into the appointment of members of the governing body of the organization by appointing a majority of those members from a list of nominees provided by others or being otherwise involved in the appointment or removal of a significant number of members;
  b) appoint or remove the CEO or other key personnel;
  c) establish or amend the mission or mandate of the organization;
  d) approve the business plans or budgets for the organization and require amendments, either on a net or line-by-line basis;
  e) establish borrowing or investment limits or restrict the organization's investments;
  f) restrict the revenue-generating capacity of the organization, notably the sources of revenue; and
  g) establish or amend the policies that the organization uses to manage, such as those relating to accounting, personnel, compensation, collective bargaining or deployment of resources.
PS 1300 – Government Reporting
Entity – Control Factors Exercise

• Consider the following situations and provide reasons for and against including such an entity in the Government Reporting Enterprise
  – A Health Region receives over 95% of its funding from the Province. Part of Provincial GRE?
  – A Health Region receives 51% of its funding from the Province and the Province can appoint 4 of 8 Board members. Part of Provincial GRE?
  – A Health Region receives 20% of its funding from the Province and the Province can appoint 5 of 8 Board members however always allows the Health Region itself to recommend those appointments. Part of Provincial GRE?

PS 1300 – Government Reporting
Entity – Control Factors Exercise

• Consider the following situations and provide reasons for and against including such an entity in the Government Reporting Enterprise
  – A Provincial Crown Corporation (100% owned by Province) is charged with complete management of another Crown Corporation. Is the managed entity part of the GRE of the Crown Corporation that manages it?
  – A local government sets up an economic development corporation and the board is selected half by the Chamber of Commerce and half by the local government. The budget must be approved by the local government who use the budget to determine the amount of grant they will provide. Is the economic development corporation part of the local government GRE?
  – A local government sets up a 100% owned subsidiary to operate a real estate development. The local government provides no funding and the subsidiary is able to meet its obligations completely from revenue sourced from outside the GRE. Is the subsidiary part of the local government GRE?
Controlled entities

- Type of controlled entities:
  - Government component
  - Government not-for-profit organization
  - Government business enterprise
  - Government partnership
  - Government business partnership
    - With only public sector partners
    - With one or more private sector partners
  - Other government organizations

Diagram:

```
Is the entity part of the public sector as defined in paragraph 02?     
Yes                                                          No
Government and government components
                              Government organizations                             Government partnerships
                              Government enterprises
                                CPA Canada Handbook – Accounting for publicly accountable enterprises
                              Government not-for-profit organizations
                                PSA Handbook with or without PS 4202 series
                              Other government organizations
                                PSA Handbook – Accounting for publicly accountable enterprises
                              
                              Government business partnerships with only public sector entity partners
                                CPA Canada Handbook – Accounting for publicly accountable enterprises
                              Non-business government partnerships with only public sector entity partners
                                PSA Handbook or CPA Canada Handbook – Accounting for publicly accountable enterprises
                              With one or more private sector partners
                                Standards determined by the partners
```

PSAS – Review of the Standards
Controlled entities - consolidation

• Consolidate entities in the GRE on a line by line basis using a uniform basis of accounting
• Eliminate inter-governmental unit transactions and balances
• Include units from their date of creation or date of eligibility
• Consider effect of eliminations on Tangible Capital Assets that were inter-governmentally transferred

Controlled entities - consolidation

• Statements with different dates
  – Different periods does not justify exclusion
  – Normally statements can be prepared for consolidation purposes
• When statements that do not coincide are consolidated, this fact should be disclosed
• Any significant events in the intervening period should be recorded in the consolidated statements
Controlled entities - GNFPOs

• A **government not-for-profit organization** is a government organization that has all of the following characteristics:
  
a) It is a separate entity with the power to contract in its own name and that can sue and be sued.
  b) It has counterparts outside the public sector
  c) It is an entity normally without transferable ownership interests.
  d) It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
  e) Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

PSAS – Review of the Standards

SLIDE 2-11

Controlled entities - GNFPOs

• The criterion for having counterparts outside the public sector is intended to be applied at a very high level – it does not have to be a counterpart operating in precisely the same manner

• Does the distinction of being a GNFPO matter?
  – Only to the extent that it allows access to the PS 4200 series (similar to Part III standards)
  – But many provinces have regulated against adoption of the PS 4200 standards for their GNFPO
  – Eventually the PS 4200 will likely go away

PSAS – Review of the Standards

SLIDE 2-12
Controlled entities – Government Business Enterprise

• Government Business Enterprise (GBE)
  – Separate legal entity
  – Delegated financial and operational authority
  – Sells goods or services to individuals or organizations as its principal activity
  – Can meet its liabilities from revenues received outside of the government reporting entity

Controlled entities – Government Business Enterprise

• Modified equity method
  – Equity method is modified only to the extent the GBE’s accounting principles are not adjusted to conform with those of the government
• Apply from the date
  – The government acquired or created the GBE
  – When a unit changed status to become a GBE
  – When a government applies Government reporting for the first time
• An entity can go from a consolidated entity to a GBE and back again depending upon circumstances
  – No retroactive changes – this is all based on the criteria relevant to the reporting period
Controlled entities – Government Business Enterprise

• Modified equity method means that you still have to follow consolidation eliminations
• See PS 3070.08, include adjustments for:
  – Elimination of unrealized inter-organizational gains and losses remaining within the GRE
  – Elimination of gains or losses on inter-organizational bond holdings
  – Fair value increments on acquisition and other typical consolidation items

Controlled entities – Government Business Enterprise

• The criteria to be able to “meet its liabilities from revenues received outside of the government reporting entity”, i.e. to be self-sufficient, is one of the most difficult to apply in practice
  – Example, new startup not currently profitable but with great and achievable projections?
  – Or, entity provided with seed capital and will not need to come back for more funding – but not profitable?
Controlled entities – Government Business Enterprise - Exercise

• For the following provide arguments for and against treating the entity as a GBE:
  – A Province sets up a shared service corporation that provides Information Technology and asset management services to all Provincial ministries and Crown Corporations. The shared service corporation receives no funding from the Province and meets all of its obligations from amounts it charges to those it serves.
  – A local government sets up subsidiary corporation to manage a rental project development. Sales and rental income from the project will come from third parties in the community and will be sufficient to cover all costs.

Controlled entities – Government Business Enterprise - Exercise

• For the following provide arguments for and against treating the entity as a GBE:
  – A community college (which is itself part of the Provincial GRE) undertakes a property development which it leases 100% to other entities that are unrelated to the community college but are all included in the Province’s GBE
  – A local government sets up a subsidiary company to undertake forestry operations. Revenues will be 100% from unrelated third parties however projections show that it will take 18 months to achieve and exceed break-even status.
  – Same as above, however projections show that it will take 18 years to achieve and exceed break-even status.
Controlled entities – Government Business Partnership

• Very similar to a GBE:
  – Is a government partnership that has the following characteristics
    • Separate legal entity
    • Delegated financial and operational authority
    • Sells goods or services to individuals or organizations as its principal activity
    • Can meet its liabilities from revenues

Controlled entities – Government Partnerships

• Contractual agreement between the government and a party outside of the government reporting entity
  – achieving clearly defined goals
  – make a financial investment
  – share control of decisions related to financial and operating policies
  – share on an equitable basis the risks and benefits of the operations
Controlled entities – Government Partnerships

• Forms and structures of government partnerships:
  – Operations under shared control
  – Assets under shared control
  – Organizations under shared control

Controlled entities – Government Partnerships

• Accounted for on a proportionate consolidation basis
• Disclosure in notes or schedules of:
  – Nature and purpose of the partnership
  – Listing of partnerships and separately identify method of accounting
  – Condensed supplementary financial information relative to partnerships
  – Government’s share of any commitments or contingencies
  – Deferred gains arising from the investment of asset
Trusts Under Administration

- Exclude trusts under the administration of a government or government organization
- In a note or schedule, disclose a description of trusts under administration and a summary of trust balances
- Any examples?

Sample Disclosures - Trusts

18. Trust Funds

Trust funds administered by the municipality have not been included in the consolidated financial statements and have not been included as part of the operations of the municipality. Trust fund balances under the administration of the municipality as at December 31 are as follows:

<table>
<thead>
<tr>
<th>Trust Fund</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homes for the Aged Trust Fund</td>
<td>X,XXX</td>
<td>X,XXX</td>
</tr>
<tr>
<td>Community Service Levies</td>
<td>X,XXX</td>
<td>$X,XXX</td>
</tr>
<tr>
<td>Heritage and Culture Trust Funds</td>
<td>X,XXX</td>
<td>X,XXX</td>
</tr>
<tr>
<td>Police Trust Funds</td>
<td>X,XXX</td>
<td>X,XXX</td>
</tr>
<tr>
<td>Other Trust Funds</td>
<td>X,XXX</td>
<td>X,XXX</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>X,XXX</strong></td>
<td><strong>X,XXX</strong></td>
</tr>
</tbody>
</table>
What is a P3?

- Service delivery model, usually involving infrastructure, where a public sector entity partners with a private sector entity (or group of entities)
- Usually very complex
- No two P3s exactly alike
P3’s exist on a continuum

Is there an asset to be recorded?

- Record an asset when controlled – using existing control guidance
  - the public sector entity controls:
    - the purpose and use of the infrastructure;
    - access to the infrastructure **and the price**, if any, the private sector entity can charge for using it; and
    - any significant interest accumulated in the infrastructure when the public private partnership’s term ends.
Is there an asset to be recorded?

• Intent is to be more broad than specific
• For example concept of “controlling price” does not have to be direct – for example, if price determined by formula this likely is captured

Recording of asset

• Asset to be recorded at “cost”
  – Consistent with PS 3150 Tangible Capital Assets
  – However, direct “cost” may not be easy to determine due to complexity of agreements, payment terms that may depend on other factors, etc.
  – Almost always will need to calculate present value of future payment stream
    • Is so, what discount rate to use (will come back to this)
Recording of Liability

- Record at same value of asset – this makes sense, no gain/loss on acquisition
- Need to consider financial consideration and non-financial consideration
- (can of course have both financial consideration and non-financial consideration)

Recording of Liability

Financial Consideration

- Cash
- Delivery of other financial assets
Recording of Liability
Non-Financial Consideration

• Grants of rights or use
  – These rights could be:
    • earning revenue from third-party users of the infrastructure (for example, users of a toll bridge); or
    • accessing another revenue-generating public sector entity asset for the private sector entity’s use (for example, a private wing of a hospital while the remainder of the hospital is used by the public sector entity to treat patients).

• Difficult to determine – must be some sort of “performance obligation” if a liability to be recognized

• If no performance obligation, then may be a “sale” and immediate recognition of proceeds

PSAS – Review of the Standards

Principle 1

The public sector entity should recognize infrastructure, or a refurbishment or improvement to infrastructure, if by the terms of the public private partnership the public sector entity controls:

• the purpose and use of the infrastructure;
• access to the infrastructure and the price, if any, the private sector entity can charge to provide an associated service; and
• any significant residual interest at the end of the public private partnership’s term.
Principle 1 - explained

• Follows PS 3210 Assets in regard to control of something that provides future economic benefits – if you control it, you should record it
• Public sector entity (or its citizens) must have access.
• Must be a transfer of asset or BPO back to public sector entity at end of term

Principle 2

When the public sector entity has an obligation to pay cash or deliver another financial asset to the private sector entity for the building, acquisition, improvement or refurbishment of the infrastructure, the public sector entity should recognize a liability.
Principle 2 - explained

• If public sector entity has to pay this meets definition of a liability under PS 3200
• “pay” includes:
  – Cash payment
  – Deliver of other financial assets
  – Guarantees of operating shortfalls or similar items

Principle 3

When the public sector entity transfers to the private sector entity the right to earn revenue from third-party users or from another revenue-generating asset as consideration for the building, acquisition, improvement or refurbishment of the infrastructure, the public sector entity should recognize a liability for the unsatisfied portion of the performance obligation associated with that consideration.
Principle 3 - explained

- Non-financial consideration can create a liability if there is a related performance obligation that remains unsatisfied.
- Look to Revenue PS 3400 (to be issued late 2018) and Liabilities PS 3200 for guidance as to performance obligations.

Principle 4

Constructed or acquired infrastructure should be recorded at its cost to the public sector entity.
Principle 4 - explained

• Completely consistent with PS 3150 Tangible Capital Assets
• However determining “cost” can be difficult in complex arrangements
• Likely some type of discounted cash flow analysis of anticipated outflows over term
  – This may require “bifurcation” if payment streams include payment for infrastructure and operating items such as maintenance

Principle 5

The liability recognized should be initially measured at the same amount as the infrastructure, reduced for any consideration previously transferred.
Principle 5 - explained

• There should not be a Day 1 gain or loss on the transaction
• Note the wording “reduced for any consideration previously transferred” – this would include not just cash payments but transfers of TCA or land

Principle 6

When the public sector entity recognizes a liability as part of granting the private sector entity the right to earn revenue from third-party users, or from another revenue-generating asset, revenue should be recognized and the liability reduced according to the economic substance of the public private partnership.
Principle 6 - explained

• This principle deals with subsequent measurement of the liability
• Financial liability portion is likely reduced according to the financing amortization scheduled determined when calculating discounted cash flows
• For non-financial consideration, can be more difficult – look to PS 3400 Revenue

Principle 7

In addition to the disclosure requirements of TANGIBLE CAPITAL ASSETS, Section PS 3150, a public sector entity should disclose the following information:

a) a description of the public private partnership including the delivery model;
b) significant terms of the partnership affecting the amount, timing and certainty of expected cash flows including:
   i. the period of the public private partnership;
   ii. the amount of the capital obligation related to the building, acquiring, improving or refurbishment of the infrastructure;
   iii. The interest paid or repayable for the period related to the obligation described in (ii);
   iv. The discount rate related to the obligation described in (ii);
   v. the aggregate amount of capital payments estimated to be required in each of the next five years and thereafter, including any minimum revenue guarantees; and
   vi. the aggregate amount of operating and/or maintenance payments estimated to be required in each of the next five years and thereafter, including any minimum revenue guarantees;
c) Significant changes in the partnership occurring during the reporting period; and
d) Significant inputs applied in determining the cost of the infrastructure.
Principle 7 - explained

- Note that the disclosures are very similar to those required for capital leases and long-term financing
- Difference in that payments for capital and payments for operating/maintenance are segregated
  - Capital payments are part of the infrastructure and liability
  - Payments for operating/maintenance represent a commitment
- When in doubt – disclose! These are complicated arrangements

Discount rates

- Note that discount rate does not change once the asset is set up (different than EFB or AROs for example)
Description of arrangements

• PRHC/BC Housing had bought 13 Single Room Occupancy hotels for use as housing shelters – properties in bad shape
• Comparison of costs/benefits indicated that more value in entering into a P3 arrangement as opposed to just directly contracting repairs
• Payments of $11 - $12 million for 18 years, approximately 80% of payment for capital, remainder for maintenance

Description of arrangements (continued)

• Cost of financing in the arrangements of 6.73% (government borrowing rate at time of contract likely approx. 2.5%)
• Present value of capital payment stream approx. $94 million
c) Capitalization of Public-Private Partnership Projects

Public-private partnership (P3) projects are delivered by private sector partners selected to design, build, finance, and maintain the assets. The costs of the assets are estimated at fair value, based on construction progress verified by an independent certifier, and also include other costs incurred directly by the Corporation. The asset cost includes development and financing fees estimated at fair value, which require the extraction of cost information from the financial model embedded in the project agreement. Interest during construction is also included in the asset cost and is calculated on the P3 asset value, less contributions received during the construction term. The interest rate used is the project internal rate of return. Upon completion, the project assets are amortized over their estimated useful lives.

Correspondingly, an obligation net of the contributions received is recorded as a liability and included in long-term debt.

Upon substantial completion, the private sector partner receives monthly payments to cover the partners’ operating costs, financing costs and a return of their capital.
### Disclosure - Financing

#### 9. Long-Term Debt

<table>
<thead>
<tr>
<th>2017 ($000's)</th>
<th>2016 ($000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada Mortgage and Housing Corporation (CMHC) Debenture mortgages repayable at the end of each year, maturing between the years 2024 and 2027, with a weighted average rate of 7.76% (2016: 7.97%) and secured by unregistered first mortgages on properties of the Corporation.</td>
<td>$ 47,868</td>
</tr>
<tr>
<td>Chartered banks and CMHC Mortgages repayable monthly over terms of up to 35 years, with a weighted average rate of 2.51% (2016: 2.63%), secured by registered first mortgages on properties of the Corporation.</td>
<td>109,618</td>
</tr>
<tr>
<td>Public-Private Partnership Obligations SRO Renewal Initiative, 18 year contract until January 2031 with Habitat Housing Initiative, monthly payments including interest at 6.73% per annum, payable in accordance with the project agreement terms commencing July 2014 to a maximum of $788,377. As of March 31, 2017, the total amount paid since inception was $16,003,469.</td>
<td>83,477</td>
</tr>
</tbody>
</table>

---

**Total:** $240,963 $248,679

---

### Disclosure – Financing (continued)

Public-Private Partnership Obligations SRO Renewal Initiative, 18 year contract until January 2031 with Habitat Housing Initiative, monthly payments including interest at 6.73% per annum, payable in accordance with the project agreement terms commencing July 2014 to a maximum of $788,377. As of March 31, 2017, the total amount paid since inception was $16,003,469.

| 2018        | $ 33,016 |
| 2019        | 26,869   |
| 2020        | 25,887   |
| 2021        | 29,204   |
| 2022        | 21,588   |
| Thereafter  | 104,399  |

**Total:** $240,963

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PSAS – Review of the Standards

SLIDE 2-51

SLIDE 2-52
11. Commitments

The Corporation has entered into a public-private partnership project with Habitat Housing Initiative (HHI) to renovate thirteen Single Room Occupancy Hotels in Vancouver’s Downtown Eastside. The information provided below shows the anticipated cash outflow, net of federal contributions provided during construction, for future obligations under the contract including the Commissions’ annual service payments to HHI for the capital cost and financing, the facility maintenance and lifecycle costs as defined in the Project Agreement. Payments to the private partner are contingent on specified performance criteria and include an estimation of inflation where applicable.

As construction progresses, the asset values are recorded as capital assets (see Note 10) and the obligation is recorded as a liability and included in long-term debt (see Note 9). Upon construction completion, the obligation will be met through the capital component of the monthly service payments over the term of the Project Agreement that is paid directly by the Commission.

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital ($000's)</th>
<th>Facility Maintenance and Lifecycle ($000's)</th>
<th>Total Payments ($000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>9,461</td>
<td>2,051</td>
<td>11,512</td>
</tr>
<tr>
<td>2019</td>
<td>9,461</td>
<td>2,731</td>
<td>12,192</td>
</tr>
<tr>
<td>2020</td>
<td>9,461</td>
<td>2,444</td>
<td>11,905</td>
</tr>
<tr>
<td>2021</td>
<td>9,461</td>
<td>2,735</td>
<td>12,196</td>
</tr>
<tr>
<td>2022</td>
<td>9,461</td>
<td>2,228</td>
<td>11,689</td>
</tr>
<tr>
<td>Thereafter</td>
<td>83,566</td>
<td>19,240</td>
<td>102,806</td>
</tr>
<tr>
<td>Total</td>
<td>$130,871</td>
<td>$31,429</td>
<td>$162,300</td>
</tr>
</tbody>
</table>
Disclosure - critiques

• Would it be better summarized all together in one place?
• Capitalized value of P3 asset is not clearly stated
• Principal repayments related to P3 capital payments not separately disclosed
• Interest on long term debt also shown on a combined basis – interest related to the P3 not separately disclosed
PSAS Revenue Standards

• Several standards deal with different types of revenues
  – PS 3100 – Restricted Assets and Revenue
  – PS 3400 – Revenue (effective April 1, 2022)
  – PS 3410 – Government Transfers
  – PS 3510 – Tax Revenue

PSAS Revenue Standards

• Generally consistent concept:
  – Revenue is recorded when received or receivable unless the recipient entity has a performance obligation that must be satisfied
  – Not explicitly stated, but generally felt that performance obligation must be:
    • Incremental to what the entity would already be doing
    • Result in an outflow of resources to satisfy
  – Matching concept not completely dead but applies very rarely
PSAS Revenue Standards

• PSAS vs. ASPE
  – Exchange transactions: the recognition principles for revenue under ASPE are consistent with those used by PSAS
  – Non-exchange transactions: Not much in ASPE due to nature of business transactions, but ASPE 3800 Government assistance allows for deferral and amortization of capital funding. PSAS does not allow this unless there are stipulations that create a liability (as we will see later)

PSAS Revenue Standards

• PSAS vs. IFRS
  – Consistency in regard to exchange transactions
  – IFRS 15 provides much more detail with the core principle being that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The IFRS 5 step framework is consistent with PSAS
PSAS Revenue Standards

- IFRS also looks to areas such as:
  - Accounting for contract costs
  - Performance obligations satisfied over time
  - Methods for measuring progress towards complete satisfaction of a performance obligation
  - Sale with a right of return
  - Warranties
  - Principal versus agent considerations

PSAS Revenue Standards

- Customer options for additional goods or services
- Non-refundable upfront fees
- Licensing, repurchase arrangements, consignment arrangements
- Bill-and-hold arrangements
- Customer acceptance
- Disclosures of disaggregation of revenue

- Virtually all of this consistent with PSAS for exchange transactions
PSAS Revenue Standards – PS 3400 Revenue (effective 2022)

• This standard has an effective date for years after April 1, 2022
• Key concepts of exchange transaction vs. non-exchange revenues
• Consistency in treatment of Exchange Transactions with ASPE and IFRS
• Consistency in treatment of Non-exchange transactions with Government Transfers

Examples of Exchange vs Non-exchange revenues:

– Exchange
  • Fitness centre pass
  • College course
  • Museum admission
– Non-exchange
  • Driver’s license
  • Traffic fines
  • Business license
PSAS Revenue Standards – PS 3400 Revenue (effective 2022)

• Generally consistent with IFRS 15 in many areas
• Less detailed in PS 3400, but concepts similar and consistent with IFRS 15
• Following IFRS 15 decision making framework would get one to same conclusions in PSAS

PSAS Revenue Standards – PS 3400 Revenue (effective 2022)

• Disclosure is fairly straightforward:
  a) disaggregated revenues by source and type
  b) typical performance obligations and the methods and policies that apply when recognizing revenues; and
  c) the nature and amount of continuing obligations grouped by category of similar transactions

• When a public sector entity has the information necessary to record a transaction but does not expect to be able to enforce payment, disclosure of these amounts is required.
• In circumstances where the terms of the arrangement include significant concessionary terms so that all or a part of the transaction is recognized as a grant, disclosure of the original amount of the transaction price should be provided.
**PSAS Revenue Standards – PS 3400 Revenue - Exercise**

• For the following types of revenues, provide arguments for and against why these would be exchange or unilateral revenues:
  – Property taxation which runs for the period July 1 to June 30th
  – Dog licenses that run for 1 year period from issue
  – Fitness centre passes for a 1 year period with unlimited use
  – Fitness centre passes that allow 10 single visits of future use
  – Metered water charges where the portion paid by the user is but a fraction of the total cost of providing water

**PSAS Revenue Standards – Non-exchange transactions**

• Non-Exchange Transactions
  – Unique to public sector and not-for-profit sectors
  – More developed and specific principles
  – PS 3100 Restricted Assets and Revenue
  – PS 3410 Government Transfers
  – PS 3400 Revenue (effective April 1, 2022)
PSAS Revenue Standards – Government Transfers

- PS 3410 Government Transfers
- The most contentious and difficult PSAS standard to date
- Inconsistent application and decision making related to this standard continues to this day
  - For example, BC, Alberta, Ontario and Quebec have all had quite different interpretations of application of Government Transfers
  - Most often issue is related to what it means to have a stipulation that creates a liability

PSAS Revenue Standards – Government Transfers

- Transfers of monetary assets or tangible capital assets from a government to an individual, organization or another government, for which the transferor does not:
  - Receive any goods or services in return
  - Expect to be repaid in the future
  - Expect a financial return
- It is therefore a non-exchange transaction
• Recognition
  – Transferring government: recognize expense as long as:
    – The transfer is authorized
    – Eligibility criteria, if any, is met

• Recognition
  – Recipient government: revenue recognition more complicated
    – No eligibility criteria or stipulations – recognize immediately
    – Eligibility criteria, no stipulations -- recognize when authorized and criteria met
    – With or without eligibility criteria but with stipulations -- recognize when authorized, criteria met, unless a stipulation gives rise to an obligation that creates a liability
PSAS Revenue Standards – Government Transfers

• Recognition
  – Stipulation – describe how a recipient must use transferred resources or the actions it must perform in order to keep the transfer
  – Eligibility Criteria - describe who a recipient must be or what it must do in order to be able to get a government transfer

PSAS Revenue Standards – Government Transfers

• Stipulations that create a liability
  – Recall definition of a liability under PSAS:
    • **Liabilities** are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.
  – General acceptance (but still with some disagreements) that any liability created must be incremental to whatever the entity would be doing anyway. For example, a grant from the Province of BC to the City of Vancouver to be used only for Police Services does not create a liability because the City provides police services anyway.
PSAS Revenue Standards – Government Transfers for Capital

• Important to note also that in situations where a stipulation does create a liability, the related revenue is recognized as the liability is settled.
• In most cases, for a capital transfer this would not equate to the life of the tangible capital asset being funded.
• This means the “deferred capital contribution” concept of recognizing revenue at same rate as asset is amortized would be rare.

Authorization

• Transferring government
  – Authorized when:
    • at the financial statement date enabling authority to provide the transfer is conveyed through legislation, regulations or by-laws: and
    • a decision has been made that clearly demonstrates it has lost the discretion to avoid proceeding with the transfer
  OR
Authorization

• Transferring government
  – Authorized when:
    • there is evidence of both:
      – Actions and communications that clearly demonstrate a loss of discretion to avoid the transfer by committing to the transfer: and
      – Final approval in the stub period of the enabling legislation, regulations or by-laws

Authorization

• Recipient government
  – Authorized when:
    • at the financial statement date enabling authority to provide the transfer is conveyed through legislation, regulations or by-laws: and
    • a decision has been made that clearly demonstrates it has lost the discretion to avoid proceeding with the transfer
For the following transfers consider arguments for and against their existing stipulations that create a liability for the recipient entity:

- A Province transfers $300,000 revenue sharing grant to a local government.
- The Federal government transfers $300,000 to a local government on condition that they lobby the Provincial government to match this level of funding.
- A Province transfers $300,000 to a local government for purposes of expanding local tourism.
- A Province transfers $300,000 to a local government for purposes of expanding local tourism and any amounts not used for this purpose within 18 months must be repaid.

The Federal Government transfers $300,000 to a local government to build a bridge that the local government has since built. The grant documentation states that the bridge cannot be transferred, sold or abandoned for a period of at least 7 years. \( \frac{1}{7} \)th of the grant must be repaid for each year that the local government does not live up to this commitment.
A major property developer in the community transfers $300,000 to a local government on condition that it be used for something "tourism related" but there is no requirement for repayment or penalty if this is not followed.

The Province transfers $300,000 to a local government under a special one-time grant program without any significant stipulations. However, the local government Council passes a resolution at an open meeting to use this funding only to build a new curling rink.

Taxes are:
- economic resources compulsorily paid or payable to governments in accordance with laws and/or regulations normally established to provide revenue for public purposes to the government.

Taxes should be recognized when:
- They meet the definition of an asset
- They are authorized
- The taxable event has occurred
PSAS Revenue Standards – Tax Revenue

• Meet definition of an asset:
  – Future economic benefits expected to be obtained

• Authorized:
  – the related legislation, regulations or by-laws have been approved by the legislature or council; or
  – the ability to assess and collect tax has been provided through legislative convention.

PSAS Revenue Standards – Tax Revenue

• Taxable event differs depending upon nature of tax:
  – income tax is the earning of taxable income during the taxation period by the taxpayer;
  – property tax is the period for which the tax is levied because the tax is levied on a periodic basis;
  – value-added or sales tax is the purchase or sale of taxable goods and services during the taxation period; and
  – customs duty is the movement of dutiable goods or services across the customs boundary.
PSAS Revenue Standards – Tax Revenue

• Tax Revenue – other items of note:
  – taxes collected on behalf of others – does not improve the economic resources of the entity collecting therefore not revenue (although likely disclose)
  – Taxes received in advance meet definition of liability
  – Initial recording of tax revenue should be at realizable value
  – Transfers made through tax system should be an expense and not a reduction in tax revenue
  – Tax revenue should NOT be grossed up for the amount of tax concessions

PSAS Revenue Standards – Restricted Assets and Revenues

• At first glance, definition of restricted revenue seems very similar to Government Transfers:
  – **External restrictions** are stipulations imposed by an agreement with an external party, or through legislation of another government, that specify the purpose or purposes for which resources are to be used

• The key is that the transfers here come from a source other than a government – for example, a developer, a donor, a business
PSAS Revenue Standards – Restricted Assets and Revenues

• Reference in the definition of external restrictions to a stipulation arising through legislation of another government does not mean that the transfer comes from another government – it is just referencing that legislation can create a restriction

• Note here that the fact there is a stipulation is sufficient, there is not the same requirement as in Government Transfers for the stipulation to create a liability

PSAS Revenue Standards – Restricted Assets and Revenues

• Externally restricted inflows should be recognized as revenue when the resources are used for their intended purpose

• Externally restricted inflows received before this time should be reported as a liability

• Disclose
  – Nature and source of external restrictions
  – Amounts by major source
  – Amount of and changes in deferred revenue balance
  – Any externally restricted assets that are segregated and relationship to the related liability
PSAS Revenue Standards – Restricted Assets and Revenues

• Trust distinction: if the arrangements are such that a trust is created then the transaction is not recorded in the financial statements other than note disclosure.
• This is consistent because if the entity is not a direct beneficiary of the trust, then it will not be benefiting from the revenues.
• (see PS1300.40 Trusts Under Administration - Trusts administered by a government or government organization should be excluded from the government reporting entity.)
Asset Retirement Obligations, Contaminated Sites

• Current standards:
  – Contaminated sites: record liability for remediation costs when an asset (generally not in use) has contamination that exceeds a legislated standard
  – Landfill obligations: record liability for closure and post-closure costs as capacity of landfill is utilized

• New Standard (April 1, 2021):
  – Asset retirement obligations: record a liability for costs required to decommission an asset at its end of life

PSAS – Review of the Standards

Asset Retirement Obligations, Contaminated Sites

• Similarity between the standards
  – All these obligations occur in the future so discounting is recommended
    • Discount rate to use is not expressly stated
  – Best estimates of future costs, regularly re-evaluated
  – Engineers or other experts likely needed for estimates
Asset Retirement Obligations, Contaminated Sites

• Differences between the standards
  – ARO and landfill both dealing with existing conditions from use; contaminated sites differs as unexpected
  – Landfill deals with liability side only (which means immediate expense instead of amortization)

• Landfill standard will disappear and be part of ARO
  – Landfill standard in place until ARO standard adopted

PSAS – Review of the Standards

SLIDE 4-3

Asset Retirement Obligations, Contaminated Sites – ASPE/IFRS

• ARO is the only section with a direct match in other standards
  – ASPE 3110 very similar to PS 3280
  – IAS 37 Provisions, Contingent Liabilities and Contingent Assets
    • Very similar to ASPE and therefore PSAS
    • Small differences such as IFRS referring to obligations as being either legal or constructive whereas ASPE legal, equitable or constructive

• Generally do not expect PSAS to be significantly different from what other standard setters have done

PSAS – Review of the Standards

SLIDE 4-4
ASSET RETIREMENT OBLIGATIONS

OVERALL HIGHLIGHTS OF ARO STANDARD

- An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner.
- Asset retirement costs associated with an asset no longer in productive use are expensed.
- Subsequent measurement of the liability can result in either a change in the carrying amount of the related tangible capital asset (or a component thereof), or an expense, depending on the nature of the remeasurement and whether the asset remains in productive use.
- Asset retirement obligations include post-retirement operation, maintenance and monitoring.
- A present value technique is often the best method with which to estimate the liability.

2011
PSAB approved a project on AROs

2014
Issued Statement of Principles

2017
Issued Exposure Draft

2018
Final Standard Issued

Apr 1, 2021
Standard Effective
ARO STANDARD SCOPE
What’s IN & What’s OUT?

Asset Retirement Obligation – a legal obligation associated with the retirement of a tangible capital asset

• Which tangible capital assets could be affected?
  • Those controlled by the public sector

• Currently in productive use

• No longer in productive use

• Includes leased tangible capital assets

Scope includes
• Solid waste landfill closure and post closure liabilities
• Removal of asbestos
• Retirement of X-ray machines

Scope excludes
• Routine replacement
• Contaminated sites
• Improper use
• Unexpected events
• Alternative use
• Waste and by-product

NEW ARO Standard vs. Former Contaminated Sites

<table>
<thead>
<tr>
<th>Cause for the retirement or remediation obligation</th>
<th>PS 3280 ARO Standard</th>
<th>Existing Section PS 3260</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition, construction, development, normal use</td>
<td>-Acquisition, construction, development, normal use</td>
<td>-Unexpected event, improper use</td>
</tr>
<tr>
<td>Not necessarily associated with contamination</td>
<td>-Not necessarily associated with contamination</td>
<td>-Contamination must exist</td>
</tr>
</tbody>
</table>

| Type of obligation | Legal – related to TCA controlled by the entity | All liabilities - direct responsibility & assumed responsibility |

| Extent of contamination | Does not need to exceed the environmental standard | Must exceed the environmental standard |

| Accounting for expected costs (including expected contamination) | Capitalize as part of the cost of the TCA | Expense |
Always remember….

• A liability is a liability
Always remember….

• A liability is a liability
  – .44 **Liabilities** are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. (PS1000.44)

**RECOGNITION OF ARO**

**Liability Criteria**

• A liability is recognized when all of the following criteria are satisfied:
  • There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
  • The past transaction or event giving rise to the liability has occurred;
  • It is expected that future economic benefits will be given up; and
  • A reasonable estimate of the amount can be made
### RECOGNITION & ALLOCATION OF COSTS

<table>
<thead>
<tr>
<th>ARO associated with:</th>
<th>Treatment of Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCA in productive use -not fully amortized</td>
<td>Capitalize asset retirement costs (add to cost of asset) &amp; expense in rational and systematic manner (e.g. over useful life of asset)</td>
</tr>
<tr>
<td>TCA in productive use -fully amortized</td>
<td>Capitalize asset retirement costs (add to cost of asset) &amp; expense over revised estimate of remaining useful life</td>
</tr>
<tr>
<td>TCA -not recognized</td>
<td>Expense asset retirement costs immediately</td>
</tr>
<tr>
<td>TCA -no longer in productive use</td>
<td>Expense asset retirement costs immediately</td>
</tr>
</tbody>
</table>

---

### ARO MEASUREMENT

**Initial**

- The estimate of a liability should include costs directly attributable to asset retirement activities, including:
  - Post-retirement operations, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset; and
  - Costs of tangible capital assets acquired as part of asset retirement activities to the extent those assets have no alternative use
- Based on information available at the financial statement date
- Best estimate of the amount required to retire a tangible capital asset
- No prescriptive guidance on appropriate measurement techniques and discount rate included in the proposed standard
- A present value technique is often the best available method
ARO MEASUREMENT
Subsequent

- The carrying amount of liability reconsidered at each financial reporting date
- Recognition of period-to-period changes in a liability:

<table>
<thead>
<tr>
<th>Resulting from:</th>
<th>TCA still in productive use – recognize:</th>
<th>TCA not in productive use – recognize:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revisions to either:</td>
<td>By adding to cost of the related TCA &amp; amortizing in rational and systematic manner</td>
<td>As expense in period incurred</td>
</tr>
<tr>
<td>- Timing;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Amount of original estimate of undiscounted cash flows; or</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Discount Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passage of time</td>
<td>As an accretion expense</td>
<td>As an accretion expense</td>
</tr>
</tbody>
</table>

- Liability continues to be recognized until it is settled or otherwise extinguished

ARO RECOVERIES
(and change to Contaminated Sites)

- Recognize when:
  a) the recovery can be appropriately measured;
  b) a reasonable estimate of the amount can be made; and
  c) it is expected that future economic benefits will be obtained.

- A recovery should NOT be netted against the liability.

- A contingent recovery should be disclosed in accordance with Section PS 3320, Contingent Assets

- Consequential amendment to PS 3260 Liability for Contaminated Sites to prohibit netting of recover against the liability
ARO EXAMPLE
Asbestos

Scenario: A public sector entity purchases a building containing asbestos for $6M on April 1, 2X21. Significant assumptions are as follows:

• The remaining useful life of the building is 10 years
• The entity plans to demolish the building at the end of its useful life and the relevant legislation requires that asbestos be removed in a prescribed manner
• The estimated cost of this removal in 2X31 is $1M
• The appropriate discount rate to compute the present value is 3%
• The public sector entity amortizes the building over its useful life using a straight-line method
• As at March 31, 2X26 (5 years after purchase) the entity revised the estimated cost of removal to $1.2M and the discount rate to 4%

Note: The journal entries and calculations on the following slides deal only with the asset retirement costs (i.e., exclude capitalization and amortization of the underlying tangible capital asset)

Initial measurement of the ARO Liability

Present value of the ARO liability as at April 1, 2X21 $744,094

Journal entries
April 1, 2X21:
Dr. Tangible capital asset 744,094
Cr. ARO liability 744,094
To record the initial ARO liability
EXAMPLE (continued)
Asbestos

**Subsequent Measurement of the ARO Liability Reflecting Changes in the Estimated Cash Flows and the Discount Rate**

Present value of the ARO liability at March 31, 2X26 – before revision $862,609

Present value of the ARO liability at March 31, 2X26 – after revision $986,313

Present value of the incremental liability at March 31, 2X26 $123,704

March 31, 2X26:

- Dr. Tangible capital asset 123,704
- Cr. ARO liability 123,704

To record the subsequent change in ARO liability

---

**EXAMPLE (continued)
Asbestos**

**Interest Method of Allocation**

<table>
<thead>
<tr>
<th>Year</th>
<th>Liability balance April 1</th>
<th>Accretion</th>
<th>Change in estimate</th>
<th>Liability balance Mar. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2X21-2X22</td>
<td>$744,094</td>
<td>$22,323</td>
<td>$ —</td>
<td>$766,417</td>
</tr>
<tr>
<td>2X22-2X23</td>
<td>766,417</td>
<td>22,992</td>
<td>—</td>
<td>789,409</td>
</tr>
<tr>
<td>2X23-2X24</td>
<td>789,409</td>
<td>23,683</td>
<td>—</td>
<td>813,092</td>
</tr>
<tr>
<td>2X24-2X25</td>
<td>813,092</td>
<td>24,392</td>
<td>—</td>
<td>837,484</td>
</tr>
<tr>
<td>2X25-2X26</td>
<td>837,484</td>
<td>25,125</td>
<td>123,704</td>
<td>961,183</td>
</tr>
<tr>
<td>2X26-2X27</td>
<td>961,183</td>
<td>39,452</td>
<td>—</td>
<td>1,025,635</td>
</tr>
<tr>
<td>2X27-2X28</td>
<td>1,025,635</td>
<td>41,031</td>
<td>—</td>
<td>1,066,666</td>
</tr>
<tr>
<td>2X28-2X29</td>
<td>1,066,666</td>
<td>42,671</td>
<td>—</td>
<td>1,109,337</td>
</tr>
<tr>
<td>2X29-2X30</td>
<td>1,109,337</td>
<td>44,379</td>
<td>—</td>
<td>1,153,716</td>
</tr>
<tr>
<td>2X30-2X31</td>
<td>1,153,716</td>
<td>46,154</td>
<td>—</td>
<td>1,200,000</td>
</tr>
</tbody>
</table>
EXAMPLE (continued)
Asbestos

**Schedule of Expenses**

<table>
<thead>
<tr>
<th>Year end</th>
<th>Accretion expense</th>
<th>Amortization expense</th>
<th>Total expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>2X22</td>
<td>$22,323</td>
<td>$74,409</td>
<td>$96,732</td>
</tr>
<tr>
<td>2X23</td>
<td>22,992</td>
<td>74,409</td>
<td>97,401</td>
</tr>
<tr>
<td>2X24</td>
<td>23,683</td>
<td>74,409</td>
<td>98,092</td>
</tr>
<tr>
<td>2X25</td>
<td>24,392</td>
<td>74,409</td>
<td>98,801</td>
</tr>
<tr>
<td>2X26</td>
<td>25,125</td>
<td>74,409</td>
<td>99,534</td>
</tr>
<tr>
<td>2X27</td>
<td>39,452</td>
<td>99,150</td>
<td>138,602</td>
</tr>
<tr>
<td>2X28</td>
<td>41,031</td>
<td>99,150</td>
<td>140,181</td>
</tr>
<tr>
<td>2X29</td>
<td>42,671</td>
<td>99,150</td>
<td>141,821</td>
</tr>
<tr>
<td>2X30</td>
<td>44,379</td>
<td>99,150</td>
<td>143,529</td>
</tr>
<tr>
<td>2X31</td>
<td>46,154</td>
<td>99,150</td>
<td>145,304</td>
</tr>
</tbody>
</table>

March 31, 2X21-2X31:

Dr. Amortization expense  Per schedule

Cr. Accumulated amortization  Per schedule

To record amortization on the asset retirement cost

Dr. Accretion expense  Per schedule

Cr. ARO liability  Per schedule

To record accretion expense on the ARO liability
EXAMPLE (continued)

Asbestos

March 31, 2X31:

Dr. ARO liability 1,200,000
Cr. Cash 1,200,000

To record settlement of the ARO liability

IMPLICATIONS OF INCLUDING LANDFILLS
ARO Standard vs. Landfill Standard

<table>
<thead>
<tr>
<th></th>
<th>PS 3280 ARO Standard</th>
<th>Existing Section PS 3270</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability</td>
<td>Fixed costs recognized fixed portion as incurred = earlier recognition</td>
<td>Recognized incrementally as landfill used = later recognition</td>
</tr>
<tr>
<td></td>
<td>Variable ?? (see next)</td>
<td></td>
</tr>
<tr>
<td>Total liability</td>
<td>Generally the same</td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>Asset retirement costs capitalized</td>
<td>N/A</td>
</tr>
<tr>
<td>Net debt</td>
<td>Earlier increase in net debt</td>
<td>Later increase in net debt</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>Generally the same</td>
<td></td>
</tr>
<tr>
<td>Annual expenses</td>
<td>Difference in annual expenses are due to differences in methodology used</td>
<td></td>
</tr>
</tbody>
</table>
ARO TRANSITIONAL PROVISIONS

• Transitional provision options:
  • Prospective application (not previously recognized or requires adjustment)
  • Retrospective application with restatement (usual PS 2120)
  • Modified retrospective application with restatement (unique for existing AROs recorded)

ARO TRANSITIONAL PROVISIONS
Modified Retrospective Application Example

Scenario: This example depicts a public sector entity that did not recognize an asset retirement obligation in the past. Significant assumptions are as follows:
  • The tangible capital asset to which the asset retirement obligation relates was acquired on April 1, 2004, and is estimated to have a useful life of 20 years
  • The entity incurred 100 percent of the asset retirement obligation on acquisition (April 1, 2004)
  • The entity uses straight-line amortization
  • At April 1, 2021, undiscounted expected cash flows that will be required to satisfy the asset retirement obligation on March 31, 2024 are $250K
  • The April 1, 2021 discount rate is 3%

Note: This example illustrates the application of the transitional provisions assuming that this Section is adopted on April 1, 2021. Therefore, for measurement purposes, the example uses information and assumptions to derive cash flow estimates related to an asset retirement obligation at April 1, 2021.
ARO TRANSITIONAL PROVISIONS
Modified Retrospective Application Example (cont’d)

**Interest Method of Allocation**

<table>
<thead>
<tr>
<th>Year</th>
<th>Liability balance April 1</th>
<th>Accretion</th>
<th>Liability balance Mar. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020-2021</td>
<td>$222,121</td>
<td>$6,664</td>
<td>$228,785</td>
</tr>
<tr>
<td>2021-2022</td>
<td>228,785</td>
<td>6,864</td>
<td>235,649</td>
</tr>
<tr>
<td>2022-2023</td>
<td>235,649</td>
<td>7,069</td>
<td>242,718</td>
</tr>
<tr>
<td>2023-2024</td>
<td>242,718</td>
<td>7,282</td>
<td>250,000</td>
</tr>
</tbody>
</table>

(a) $228,785 = present value of $250,000, 3%, 3 years.

**Transitional Amounts Required by the Provisions of this Section**

- Asset — April 1, 2021:
  - Capitalized April 1, 2004: $138,419
  - (Present value of $250,000, 3.0%, 20 years)

- Accumulated amortization — April 1, 2020:
  - Capitalized April 1, 2020: $110,735
  - ($138,419 – 20) * 16
    - Amortization expense: 6,921
  - ($138,419 + 20)
    - Accumulated amortization — March 31, 2021: $117,656

---

**ARO TRANSITIONAL PROVISIONS**
Modified Retrospective Application Example (cont’d)

**Journal entry required for comparative period (April 1, 2020)**

- Dr. Opening accumulated surplus/deficit 194,437
- Dr. Tangible capital asset 138,419
  - Cr. Accumulated amortization 110,735
  - Cr. Liability for an asset retirement obligation 222,121

**Journal entry required for 2020 year so numbers are correct at date of transition (April 1, 2021)**

- Dr. Amortization expense 6,921
- Dr. Accretion expense 6,664
  - Cr. Accumulated amortization 6,921
  - Cr. Liability for an asset retirement obligation 6,664

Therefore, at date of transition (April 1, 2021)

- Tangible capital asset 138,419
- Accumulated amortization (117,656)
- NBV 20,763
- Liability for an asset retirement obligation (228,785)
- Opening accumulated surplus/deficit 208,022

---
ARO Discount Rates

• Like any discounted long-term item, the choice of discount rates can have a big impact
• For example with our previous example of $1,000,000 ARO 10 years out, liability of:
  – At 3.5% = $700,000
  – At 1.5% = $862,000
  – At 7.0% = $508,000

ARO Discount Rates

• The standard does not prescribe a specific discount rate to use:
  – .47 A key input into a present value technique, such as a discounted cash flow calculation, is the discount rate. A discount rate reflects the time value of money and the risks specific to the liability for asset retirement obligations, for which future cash flow estimates have not been adjusted. The assumptions applied in the cash flows and the discount rate should be internally consistent. For example, if the cash flows include the effect of inflation, then the discount rate also incorporates the same inflation assumptions.
ARO Discount Rates

- Likely makes sense to use a rate similar to long-term debt rates of similar term; that is, entity’s cost of borrowing

Liability for Contaminated Sites

- Liability for contaminated sites
  - Contamination: Introduction into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard
  - Contaminated Site: A site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard
Liability for Contaminated Sites

- Liability for contaminated sites and application of productive use
  - Liability results from
    - All or part of an operation of the government organization that is *no longer in productive use*
    - All or part of an operation of entities outside the government reporting entity that is *no longer in productive use* for which the government accepts responsibility
    - Changes to environmental standards relating to all or part of an operation that is *no longer in productive use*
    - An *unexpected event* resulting in contamination

When do we look beyond productive use?
- Unexpected event (such as a spill)
- Change in use of an asset (we can’t pave over problem area and call it a parking lot)
- A liability is a liability

Section really means we focus our search on assets not in productive use
• Productive use:
  – “A tangible capital asset is in productive use when held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets. It does not encompass the temporary idling of a tangible capital asset”

Liability for Contaminated Sites

• Contaminated Sites Three Step Approach
  – Step 1 – Identification
    • Identify sites that are in the scope of PS 3260
  – Step 2 – Recognition
    • For each site in scope, determine if it meets the recognition criteria in PS 3260.08
  – Step 3 – Measurement
    • For each site that meets the recognition criteria, determine an appropriate estimate of the liability
• Recognition should occur under PS 3260.08 when ALL of the following criteria exist at the financial reporting date:
  – An environmental standard exists
  – Contamination exceeds that standard
  – The government is directly responsible or accepts responsibility
  – It is expected future economic benefits will be given up
  – A reasonable estimate of the amount can be made

• Measurement:
  – For each site that meets the Recognition Criteria, it will be necessary to determine an appropriate estimate of the liability
  – This will include costs required to bring a site up the current minimum standard for its use prior to contamination
  – The measurement technique used should result in a best estimate of the liability:
    • The amount a government would rationally pay to settle or otherwise extinguish the liability at the financial statement date
• Measurement:
  – In determining the estimate consider cost of remediation such as:
    • Post-remediation operation, maintenance and monitoring costs that are part of remediation strategy (e.g. payroll, equipment, materials)
    • Cost of tangible capital assets acquired as part of the remediation activities (to the extent they have no alternative use)
    • Cost related to natural resource damage, if they are incurred as part of environment standards (e.g. revegetation)

• Disclosure:
  – In determining the estimate consider cost of remediation such as:
    • Nature and source of liability
    • Basis of estimate
    • When a net present value technique is used, the total undiscounted expenditures and discount rate
    • Reasons for not recognizing a liability
    • Estimated recoveries
    • Any uncertainty on measurement would be disclosed in accordance with PS 2130, Measurement Uncertainty
Liability for Contaminated Sites

- A liability is a liability regardless of Contaminated Sites or other standards
- See the PSAS 3200 Liabilities section

Liability for Contaminated Sites

- In the following situations is there likely to be a contaminated sites liability to consider? Be prepared to support your answers
  - A local government works yard is known to contain contamination from hydrocarbon toxins above the legal standard. This particular works yard has been in use at this location for 15 years and is projected to continue in use well into the future.
  - Same facts as above but the contamination level is not known.
  - A Crown Corporation currently holds an asset that is not in productive use that it knows has contamination. The level of contamination is below the current standard, however since the Crown is owned by the Province it knows that the Province will be enhancing the environmental legislation within the next two years such that the contamination will exceed the new standard.
In the following situations is there likely to be a contaminated sites liability to consider? Be prepared to support your answers

- During delivery of a fuel to a University, the delivery truck flips and spills diesel fuel on a University Residence property with live-in students.
- A local government discovers contamination on a property in use that is geographically segregated from the rest of the municipality and its neighbours. As a result, it plans not to remediate the property even though the contamination is about the legal limit.
Financial Instruments and Foreign Exchange

• Project long-time coming with deferrals along the way
  – Delays caused mostly by lack of support for new standards by senior government – particularly that hedging not allowed
  – Delay in required adoption until years beginning on or after April 1, 2021
  – Currently in force for Government Organizations because they adopted PSAS subsequent to having used private sector Financial Instruments Standards

Financial Instruments and Foreign Exchange

• Current standards effective until April 1, 2021 are quite out of touch with modern standards
  – No fair value options
  – Limited risk disclosures
  – Amortization of foreign currency gains and losses over life of financial instrument
New standard is also significantly different from ASPE and IFRS
- Only required to record equities traded in an active market at fair value AND derivatives at fair value
- Option to record other financial instruments at fair value if they are managed on a fair value basis (such as an actively traded bond portfolio)
- Only categories for financial instruments are fair value or cost/amortized cost using effective interest method
- No other comprehensive income (but see Remeasurement Gains and Losses)
- No hedging option

Recognize when entity becomes a party to the contractual provisions of the instrument
Should identify embedded derivatives
Transaction costs
  - Fair value items, expensed when incurred
  - Added to cost or amortized cost items
Disclose info that enables users to evaluate the significance of financial instruments for its financial position and changes in its financial position
  - Carrying values of assets and liabilities
  - Collateral
  - Defaults or breaches
Financial Instruments – Risk Disclosures

• Disclose info to evaluate nature and extent of risks arising from financial instruments
• Qualitative disclosures
  – Exposure to risk and how it arises
  – Policies for measuring and managing risk
  – And changes from previous period
• Quantitative disclosures
  – For each type of risk, summary of quantitative data about its exposure
  – Concentrations of risk, if not apparent

Financial Instruments – Risk Disclosures

• Credit risk
  – By class of financial instrument
    • Maximum exposure
    • Description of any collateral
    • Info about credit quality
    • Items that are past due or impaired
  – Liquidity risk
    • Maturity analysis and how it manages risk
  – Market risk
    • Sensitivity analysis
  – Other
Financial Instruments - Exercise

• For the following financial instruments, should the instrument be carried at fair value or cost/amortized cost? Be prepared to support your reasoning:
  – Long-term debt issued at 3% when the prevailing market rate was 8%
  – Interest rate swaps used from time to time for short-term reductions to the interest rate applicable on long-term debt
  – Pooled investment fund that contains equities traded in an active market
  – A bond fund investment that is managed on fair value basis

Financial Instruments - Exercise

• For the following financial instruments, should the instrument be carried at fair value or cost/amortized cost? Be prepared to support your reasoning:
  – Loan granted to the local mine at a rate of 4% but for which half will be forgiven if the mine employs a certain number of staff.
  – Accounts payable denominated in US dollars
  – Shares received as a result of a bequest that represent 70% of the common shares of a private company
  – Embedded derivative related to natural gas pricing included within a natural gas supply contract.
Financial Instruments – Remeasurement Gains/Losses vs Hedging

• No hedging option, BUT
  – Unrealized gains/losses do not go through Statement of Operations and instead will go to a new statement “Statement of Remeasurement Gains and Losses”
  – This is effectively complete hedging without need for:
    • Documenting hedging strategies
    • Conducting effectiveness testing
    • Even consciously hedging

Consolidated Statement of Remeasurement Gains and Losses

For the year ended March 31, 2018

<table>
<thead>
<tr>
<th>Description</th>
<th>Note</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Remeasurement Gains, Beginning of Year</td>
<td></td>
<td>27,223</td>
<td>20,172</td>
</tr>
<tr>
<td>Unrealized Gains (Losses) Attributable to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Portfolio investments</td>
<td></td>
<td>4,801</td>
<td>16,236</td>
</tr>
<tr>
<td>Designated fair value financial instruments</td>
<td></td>
<td>(2,296)</td>
<td>(384)</td>
</tr>
<tr>
<td>Foreign currency translation</td>
<td></td>
<td>260</td>
<td>434</td>
</tr>
<tr>
<td>(Gains) Losses Reclassified to Consolidated Statement of Operations</td>
<td></td>
<td>(3,334)</td>
<td>(5,444)</td>
</tr>
<tr>
<td>Portfolio investments</td>
<td></td>
<td>5,214</td>
<td>(4,406)</td>
</tr>
<tr>
<td>Designated fair value financial instruments</td>
<td></td>
<td>78</td>
<td>283</td>
</tr>
</tbody>
</table>

Other Comprehensive Income - Great Northern Way Campus Trust       | 9    | 272      | 332      |

Net Remeasurement Gains for the Year                               |      | 4,995    | 7,051    |

Accumulated Remeasurement Gains, End of Year                       |      | 32,218   | 27,223   |

The accompanying notes are an integral part of these financial statements.
Financial Instruments – Remeasurement Gains/Losses vs Hedging

• Some, particularly senior governments, are not satisfied with new section
• If new section allows for what is effectively 100% hedging with no strings, why isn’t everyone satisfied?
  – No ability to hedge asset/liability classes
  – No ability to use back-to-back hedges for longer term items
  – Although gains/losses not in income they still impact Net Financial Assets/Net Debt indicator which many senior governments (and bond-rating agencies) consider very important

PSAS – Review of the Standards

Remeasurement Gains/Losses – Simplified Example

<table>
<thead>
<tr>
<th>FINANCIAL ASSETS</th>
<th>REVENUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 10,000</td>
</tr>
<tr>
<td>Investments of FV</td>
<td>$ 100,000</td>
</tr>
<tr>
<td>Cash</td>
<td>$ 110,000</td>
</tr>
<tr>
<td>LIABILITIES</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>Debt</td>
<td>$ 115,000</td>
</tr>
<tr>
<td>$ 100,000</td>
<td></td>
</tr>
<tr>
<td>NET DEBT</td>
<td>$ (15,000)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>NON-FINANCIAL ASSETS</td>
<td>ANNUAL SURPLUS</td>
</tr>
<tr>
<td>Tangible Capital Assets</td>
<td>$ 176,000</td>
</tr>
<tr>
<td></td>
<td>$ 140,000</td>
</tr>
<tr>
<td>ACCUMULATED SURPLUS</td>
<td>$ 168,000</td>
</tr>
<tr>
<td></td>
<td>$ 165,000</td>
</tr>
</tbody>
</table>
### Remeasurement Gains/Losses – Simplified Example

#### Same Situation but With $10,000 unrealized investment earnings

<table>
<thead>
<tr>
<th>FINANCIAL ASSETS</th>
<th>REVENUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 10,000</td>
</tr>
<tr>
<td>Investments at FV</td>
<td>$ 110,000</td>
</tr>
<tr>
<td></td>
<td>$ 120,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>LIABILITIES</td>
<td>$ 65,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>Debt</td>
<td>$ 115,000</td>
</tr>
<tr>
<td></td>
<td>$ 120,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>NET DEBT</td>
<td>$ 0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NON-FINANCIAL ASSETS</th>
<th>ANNUAL SURPLUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible Capital Assets</td>
<td>$ 175,000</td>
</tr>
<tr>
<td></td>
<td>$ 165,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ACCUMULATED SURPLUS</th>
<th>ANNUAL SURPLUS, end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated operating surplus</td>
<td>$ 175,000</td>
</tr>
<tr>
<td>Accumulated remeasurement gains</td>
<td>$ 165,000</td>
</tr>
</tbody>
</table>

| REMEASUREMENT GAINS, opening | $ 0 |
| REMEASUREMENT GAINS, ending  | $ 10,000 |

### Remeasurement Gains/Losses – Simplified Example

If in following year $8,000 of gain is realized

<table>
<thead>
<tr>
<th>FINANCIAL ASSETS</th>
<th>REVENUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 20,000</td>
</tr>
<tr>
<td>Investments at FV</td>
<td>$ 102,000</td>
</tr>
<tr>
<td></td>
<td>$ 125,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>LIABILITIES</td>
<td>$ 79,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>Debt</td>
<td>$ 115,000</td>
</tr>
<tr>
<td></td>
<td>$ 120,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>NET DEBT</td>
<td>$ 5,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NON-FINANCIAL ASSETS</th>
<th>ANNUAL SURPLUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible Capital Assets</td>
<td>$ 175,000</td>
</tr>
<tr>
<td></td>
<td>$ 165,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ACCUMULATED SURPLUS</th>
<th>ANNUAL SURPLUS, end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated operating surplus</td>
<td>$ 179,000</td>
</tr>
<tr>
<td>Accumulated remeasurement gains</td>
<td>$ 2,000</td>
</tr>
</tbody>
</table>

| REMEASUREMENT GAINS, opening | $ 10,000 |
| REMEASUREMENT GAINS, ending  | $ 2,000   |
Foreign Currency Translation – new Section PS 2601

- Also required to be implemented for years beginning on or after April 1, 2021
- Must implement at same time as PS 3450
  Financial Instruments adopted
    - Early adoption allowed
    - Some government organizations already adopted when they converted to PSAS in 2012

Foreign Currency Translation – new Section PS 2601

- Accounting
  - Must express foreign currency transactions in the reporting currency
- Measurement
  - Initial recognition – translate in $CAN at exchange rate at that date
  - Subsequent – monetary assets and liabilities should be adjusted by the exchange rate at the financial statement date
Foreign Currency Translation – new Section PS 2601

• Exchange gains or losses prior to the period of settlement are presented in the statement of re-measurement gains and losses
• In the period of settlement
  – Cumulative re-measurement gains and losses are reversed in the statement of re-measurement gains and losses and the exchange gain or loss in relation to the exchange rate at the date item’s initial recognition is recognized in the statement of operations

Tangible Capital Assets

- In general, recording of tangible capital assets is similar to ASPE and IFRS with a few unique facets:
  - No overriding requirement for componentization, although it is recommended
  - Capitalization of interest during construction is optional
  - Amortization begins when asset put into use and halted if taken out of use
  - Multi-year construction projects are frequent
  - Art, historical treasures, assets inherited by the Crown not recorded
  - Unique impairment issues and accounting thereof (we will come back to this later in this module)

Tangible Capital Assets - Definition

- Non-financial assets having physical substance that:
  - Are held for production, supply, rental, admin, development, construction, maintenance or repair
  - Have useful economic lives beyond one period
  - Are to be used on a continuing basis
  - Are not for sale in the course of ordinary operations
- Above means that intangible assets are (obviously) not tangible capital assets however in the PSAS conceptual framework intangibles in general are not to be recorded
  - Exception is computer software which is deemed to be a tangible capital asset for purposes of this section
Tangible Capital Assets - Accounting

- **Measurement**
  - Recorded at cost
    - Purchase price, installation costs, design and engineering fees, legal fees, survey costs, site preparation costs, etc.

- **Amortization**
  - Cost, less residual value should be amortized over its useful life
  - Amortization estimates to be revisited regularly

- **Disposals**
  - Difference between net proceeds and NBV should be accounted for as a revenue or expense in the statement of operations

Tangible Capital Assets - Disclosure

- For each major category of tangible capital asset, disclose:
  - Cost at beginning and end of period
  - Additions
  - Disposals
  - Amount of any write-downs
  - Amortization
  - Other various items
Tangible Capital Assets – Donated assets

• Donated assets can come from a number of sources:
  – Very common for developers to contribute infrastructure upon completion of a subdivision. E.g. roads, sidewalks, streetlights
  – Donations by taxpayers or other interested parties often of ecologically sensitive land (local governments and many other public sector entities can issue tax receipts)
  – Capital assets can be donated by a senior government – this is a government transfer but accounting result is similar to other donations

Donated assets are recorded as revenue at their fair value at the time of donation

• Why revenue? The donation of the asset has improved the value of the assets in the entity. In PSAS’s asset and liability based conceptual framework this is revenue.
• The resulting impact this causes (unusual spikes in revenues in years with asset donations) is felt to be a difficulty by many entities that use PSAS
**Tangible Capital Assets – Impairment/Write-down of TCA**

- Impairment considerations differ from ASPE and IFRS because a cash-flow model does not work in the public sector – tangible capital assets are rarely expected to return cash flows in sufficient magnitude to cover their cost.
- Write-down process differs from former Part III because partial write-downs are allowed (however Jan 1, 2019 update to sec 4433 in Part III will now also allow for partial impairment).

**Tangible Capital Assets – Impairment/Write-down of TCA**

- Impairment considerations:
  - When conditions indicate an asset no longer contributes to the entity’s ability to provide goods and services or the future economic benefits are less than NBV, the cost should be reduced to reflect the decline.
- Note that the concept of “future economic benefits” is not a cash-flow analysis, instead it is consideration of cash and non-cash benefits produced by the asset. See example on next slide.
- A write-down should not be reversed.
Tangible Capital Assets – Impairment/Write-down of TCA

• Impairment example:
  – A local government builds a new 4 lane road at a cost of $1,000,000. It is estimated to have a 50 year life (plus resurfacing)
  – After 2 years of use the external engineers testing the road advise that the roadbed did not properly fill the low-lying land and that 4 cars at a time should never be on the same stretch of road.

As a result, the local government closes the outside lanes turning them into paved shoulders. The road is effectively now a 2 lane road.

– Since its service capacity is halved, an impairment write-down of half the NBV is warranted
– After 2 years the NBV would have been $960,000 so the local government has a $480,000 impairment charge.
Would the following be considered as indicators of impairment? If so, how might you assess the degree of impairment write-down required to the tangible capital asset?

- A Crown Corporation operates a low-income housing building. Insulation in the walls is found to be emitting a toxic gas. Use of the building can be continued, but not until $500,000 is spent on repairs.
- As a result of an engineering study, a Province finds that a bridge that it owns does not meet earthquake standards and cannot be used for anything other than emergency situations.

A local government finds that, due to age, a water treatment plant that was cleaning particulates to a level of 1 part to 100,000 is no longer as efficient and the process now allows 10 parts to 100,000. This is still below the legal environmental limit of 15 parts per 100,000.

Due to damage sustained in a flood, the lower floor of a two story building owned by a local government cannot be used.
Leased Tangible Capital Assets

- No Capital Leases Section in PSA Handbook
- However, 2 relevant Guidelines:
  - PSG-2 Leased Tangible Capital Assets
  - PSG-5 Sale-Leaseback Transactions
- Note that both of these guidelines are from the viewpoint of the government entity as the lessee – no guidance for government entity as lessor

Leased Tangible Capital Assets – PSG-2

- Risk/Benefits Model:
  - A leased tangible capital asset is a non-financial asset that has physical substance and a useful life extending beyond an accounting period, and is held under lease by a government for use, on a continuing basis, in the production or supply of goods and services. Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the government without necessarily transferring legal ownership.
Leased Tangible Capital Assets – PSG-2

• Quantitative Criteria is very similar to ASPE and IFRS pre IFRS 16:
  – One or more of following:
    • Transfer of property back to government at end of lease or bargain purchase option
    • Lease term of such a duration that government receives majority of benefit of ownership (usually 75% or more of economic life)
    • Lessor is assured of recovering investment (present value of minimum lease payments 90% or more of fair value
  – Just as with other frameworks, the above are not considered to be “bright lines”

PSAS – Review of the Standards

Leased Tangible Capital Assets – PSG-2

• Qualitative considerations equally important:
  – Paragraph 10 of PSG-2
    • Specialized nature of asset
    • Financing assistance provided by government
    • Control of asset and ability to restrict use
    • Residual risk and benefits
    • Government responsibility for operating risk
    • Business risk considerations such as pass through of cost increases to government
    • Construction risk
    • Demand risk
Leased Tangible Capital Assets – PSG-2

- Disclosure very similar to other frameworks
  - Gross amount of leased TCA and related accumulated amortization
  - Liabilities related to lease shown separately from other liabilities
  - Methods, rates of amortization
  - Interest expense related to lease
  - Commitments related to future lease payments including imputed interest
  - Others
- Interest rate used for capitalization is the lower of government’s incremental rate of borrowing and the rate implicit in the lease

Sale/Leaseback Transactions – PSG-5

- Overall concept is that a sale/leaseback is, in effect, a financing arrangement with the TCA as collateral
- Therefore accounting is:
  - TCA is still carried at original carrying value (not written up to market value)
  - Lease liability at present value of minimum lease payments
  - Economic gain/loss recognized immediately in income unless there are stipulations in regard to how the excess can be used (in which case would look to PS 3100 – Restricted Assets and Revenues)
IFRS 16 - Leases

• New IFRS 16 Standard as considerably broadened the capitalization of leases for those in the IFRS world
• Will there be pressure on other standard setters to expand their lease standards?
• Currently nothing on the PSAB project list in this area.

P3 Accounting

• Recall the P3 Accounting Standards that are coming as discussed in Module 2
• Note that there is great consistency between P3 accounting and disclosures of capital leases
• P3 accounting and related disclosures likely to be more involved though given the usual complexity of these arrangements
Module 7 – Contractual Rights and Obligations, Related Party Transactions, Inter-entity Transactions, Restructuring Transactions

Contractual Rights and Contractual Obligations

• Both relatively new – effective April 1, 2017
• PS 3380 Contractual Rights
• PS 3390 Contractual Obligations
• Disclosure standards that reference back to:
  – Contractual Rights: PS 3210 Assets and PS 3320 Contingent Assets
  – Contractual Obligations: PS 3200 Liabilities and PS 3300 Contingent Liabilities
Contractual Rights

- Rights to economic resources arising from contracts or agreements resulting in both an asset and revenue in the future
- The scope of the standard is limited to contractual agreements that will result in additional resources becoming available to the entity
- The standard explicitly states that PS 3380 does not include those contractual rights to exchange one asset for another where revenue does not arise

Contractual Rights - Disclosures

- Disclosure
  - Nature, extent and timing
  - Judgment is used as to whether to disclose
- Rights to revenue are abnormal or not in normal course of operations
- Right that will govern the level of certain revenues for a considerable period in the future
Contractual Obligations - Disclosure

• Contractual obligations are obligations of a government to others that will become liabilities in the future when the terms of those contracts or agreements are met
• Disclose
  – Information about contractual obligations that are significant to the current financial position or future operations
    • Include descriptions of their nature, extent, and timing

Related Party Transactions/Inter-entity Transactions/Restructuring Transactions

• PS 2200 Related Party Disclosures
  – Disclosure only
  – Transactions between related parties: entities controlled or controlled by or common control AND key management personnel
• PS 3420 Inter-Entity Transactions
  – Accounting and Disclosure
  – Transactions between related public sector entities (part of the same government reporting entity)
• PS 3430 Restructuring Transactions
### Related Party Transactions/Inter-entity Transactions/Restructuring Transactions

- **Accounting and Disclosure**
- **Restructuring activities include, but are not limited to:**
  a) amalgamation of entities or operations within the government reporting entity;
  b) amalgamation of local governments;
  c) annexation or boundary alteration between neighbouring local governments;
  d) transfers of operations or programs from one entity to another; and
  e) shared service arrangements entered into by local governments in a region.

---

### PSAS – Review of the Standards

**SLIDE 7-6**

### Related Party Transactions/Inter-entity Transactions/Restructuring Transactions

- All of these sections are effectively “easier” than their ASPE and IFRS counterparts
  - Related parties section deals with disclosures only as compared to ASPE 3840 that deals with measurement concepts and complexities between control, joint control and significant interest
  - IAS 24 is similar to ASPE 3840 except that it requires disclosure of key management compensation and looks to other standards in regard to measurement

---

**SLIDE 7-7**
Related Party Transactions/Inter-entity Transactions/Restructuring Transactions

- All of these sections are effectively “easier” than their ASPE and IFRS counterparts
  - Inter-entity transactions would similarly fall into the ASPE and IFRS related party sections with requirements to deal with measurement issues and particular complexities when change in ownership interests
  - Restructuring transactions depending on their nature could also fall into related party transaction section in ASPE and IFRS or, if unrelated, could fall into the very complex ASPE 1582 Business Combinations or IFRS 3 Business Combinations
Related Party Disclosures

- Entities are typically related when:
  - One entity controls the other
  - The entities are subject to common control
  - Entities subject to shared control
  - Members of key personnel and their close family
  - Entities controlled by the key personnel
- Key personnel include members of the governing body as well as senior management of the entity
- Close Family includes spouses and those dependent on the individual
- Note that salaries and benefits and expense allowance are specifically scoped out in 2(c)

Related Party Disclosures - Disclosure

- Entities should disclose the following relating to related parties:
  - Nature of the relationship with the entity
  - Types of transactions recognized
  - Amounts of the transactions and the basis of measurement
  - Amounts of any outstanding balances
  - Contractual obligations with the entity
  - Contingent liabilities involving the entity
  - Any non-monetary transactions occurring with the entity
- Level of detail in the disclosure requires judgment. The significance of the transactions and terms (i.e. Non-market) must be reviewed
Related Party Disclosures - Exercise

• Are the following Related Party Transactions and, if so, would disclosure be required in the financial statements. Be prepared to explain your answer:
  – A bonus is paid to the City manager of $500,000
  – The Mayor’s children work at a municipality during the summer and earn $20,000 each
  – A community college provides administrative services to a subsidiary company at no cost. The incremental cost of providing these services is $500,000
  – A community college provides administrative services to another community college at no cost. The incremental cost of providing these services is $500,000

Inter-entity transactions

• Transactions occurring between commonly controlled entities
• Commonly controlled entities are all public sector entities that comprise a government’s reporting entity, PS 1300.18 identifies indicators of control
• Terms and conditions of such transactions may result in assets or liabilities being transferred at values different then cost, fair value or for no consideration
Inter-entity transactions - Recognition

• Transfers of assets or liabilities
  – Both entities record the transactions
  – Transferor removes the asset/liability with any difference accounted for as a revenue or expense

• Cost allocation and recovery
  – Both entities report the applicable revenues/expenses on a gross basis

Inter-entity transactions - Recognition

• Unallocated costs
  – If the recipient chooses these costs can be recorded, however both a revenue and expense are recorded
  – These costs are incurred by a provider, and not allocated to the recipients

• An example would be an entity responsible for debt management, pension administration, or procurement that apply across all government entities
Inter-entity transactions - Measurement

- Inter-entity transactions are recorded at the carrying amount, unless:
  - Transaction terms and conditions are similar to arm’s length transaction of the same substance
  - Then recorded by both party at exchange amount
- Asset/liability is transferred for Nil consideration
  - Provider records at carrying amount, recipient records at the carrying amount or fair value
- Transactions are allocated or unallocated costs
  - Allocated - exchange amount
  - Unallocated – carrying amount or fair value

PSAS – Review of the Standards

Inter-entity transactions - Measurement

- Transactions are measured at **carrying amount**

EXCEPT...
### Inter-entity Transactions - Disclosure

- Basically same as for Related Party Disclosures PS 2200:
  - Nature of the relationship with the entity
  - Types of transactions recognized
  - Amounts of the transactions and the basis of measurement
  - Amounts of any outstanding balances
  - Contractual obligations with the entity
  - Contingent liabilities involving the entity
  - Any non-monetary transactions occurring with the entity
Restructuring Transactions

• Some common transactions
  – A local government takes over a water district and adds those services to its water function
  – Two (or more) local governments amalgamate (such as was mandated in Ontario a few years back)
  – A province amalgamates two Crown corporations together
  – A province transfers a hospital between health regions

3 Key characteristics of restructuring transactions
• “Non-purchase” nature
  – This is due to the absence of consideration for the transfer of the assets/liabilities
• Transfer of integrated set of assets/liabilities
  – The assets/liabilities are not random, they are a complete set relating to a program or operations
• Transfers of operating responsibilities
  – Along with the transfer of the assets/liabilities, responsibility of the program is also transferred
Restructuring Transactions - Recognition

- Assets/Liabilities transferred
  - Recipient
    • Recognized at the restructuring date
  - Transferor
    • Derecognized at the restructuring date
- Any increase in net assets/liabilities should be recognized as revenue/expense
- Compensation
  - Recorded as revenue/expense at the restructuring date, regardless of payment being made
- Restructuring Costs
  - Any restructuring costs are recorded as provided for under the applicable PSA Handbook Section

Restructuring Transactions - Measurement

- Transferor
  - Continues to record any assets or liabilities on same basis prior to restructuring date
  - On restructuring date records transfer at the carrying amount
- Recipient
  - Any assets or liabilities transferred should be recorded at the carrying amount, adjusted for any accounting policy choices
Restructuring Transactions - Presentation

- The net effect of restructuring transactions should be presented on a separate line
- There is no retrospective adjustments for such transactions
- Sufficient information should be disclosed to enable users to assess the nature and financial effects

Restructuring Transactions - Disclosure

- Period prior to Restructuring
  - If the transaction is significant and an agreement reached the entities disclose the following:
    - Description and estimate of the financial effect of the transaction
- Optional disclosure
  - Entities may disclose information about the assets/liabilities and operations prior to the restructuring, however it is not required
Restructuring Transactions - Disclosure

- Entities involved
- Reason for restructuring
- Restructuring date
- Nature of assets/liabilities and responsibilities
- Nature and terms of compensation
- Nature and extent of contingent liabilities
- Nature of restructuring related costs
- Other restructuring related events

Restructuring Transactions - Disclosure

- Carrying amount of assets/liabilities
- Any adjustments made to carrying amounts
- Amount of compensation
- Amount and line in which net effect of restructuring transaction recognized
- Amount and line in which restructuring costs recognized
- Amount and line in which restructuring-related events recognized
Module 8 – Pensions and Employee Future Benefits

PS 3250 Retirement Benefits and PS 3255 Post-Employment Benefits, Compensated Absences and Termination Benefits work together (PS 3255 refers back to PS 3250 for some definitions and disclosures)

Some of the oldest PSAS standards. New concepts such as shared risk plans and target benefit plans not envisaged when section developed
Pensions and Employee Future Benefits

• Just as in the private sector, the distinction between defined benefit and defined contribution plans has significant impact on required accounting and disclosure
  • (aside – shared risk plans, target benefit plans, where do they fit?)
  • Defined Benefit
    – Specifies the benefits to be received after retirement or the method for determining those benefits – government bears risk
  • Defined Contribution
    – Government contributes in respect of services rendered at a fixed rate – no other contributions required now or in future – employees bear risk

PSAS – Review of the Standards

Pensions and Employee Future Benefits

• Retirement benefit liability should present components:
  – Accrued benefit obligation
  – Plan assets, if any
  – Unamortized gains and losses
• Because of the existence of unamortized gains and losses end up with two differing items that can be confusing for readers:
  – Accrued benefit obligation – the actual full amount calculated by the actuaries
  – Accrued benefit liability – the liability reported in the financial statements which is net of the unamortized gains and losses

PSAS – Review of the Standards
Pensions and Employee Future Benefits

9. Employee Future Benefit Liability

Information about liabilities for the City’s employee obligation is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued benefit obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning of year</td>
<td>$18,093,001</td>
<td>$17,729,501</td>
</tr>
<tr>
<td>Service cost</td>
<td>1,389,300</td>
<td>1,387,100</td>
</tr>
<tr>
<td>Interest cost</td>
<td>618,700</td>
<td>571,400</td>
</tr>
<tr>
<td>Benefits payments</td>
<td>(1,364,400)</td>
<td>(884,600)</td>
</tr>
<tr>
<td>Immediate recognition loss/gain for event driven liabilities</td>
<td>(167,700)</td>
<td>37,400</td>
</tr>
<tr>
<td>Actuarial gain (loss)</td>
<td>(298,800)</td>
<td>(747,800)</td>
</tr>
<tr>
<td><strong>Accrued benefit obligation, end of year</strong></td>
<td><strong>18,270,101</strong></td>
<td><strong>18,093,001</strong></td>
</tr>
<tr>
<td><strong>Less unamortized net actuarial loss</strong></td>
<td><strong>(1,022,577)</strong></td>
<td><strong>(1,516,602)</strong></td>
</tr>
<tr>
<td>Add pension over contributions due to staff</td>
<td>440,663</td>
<td>474,924</td>
</tr>
<tr>
<td><strong>Accrued benefit liability, end of year</strong></td>
<td><strong>$17,688,187</strong></td>
<td><strong>$17,051,125</strong></td>
</tr>
</tbody>
</table>

PSAS – Review of the Standards

SLIDE 8-4

Pensions and Employee Future Benefits

• Projected benefit method prorated on services should be used to attribute the cost of retirement benefits to the periods of employee service
  – An equal portion of the total estimated benefit, with salary projection for final pay plans and medical inflation, is attributed to each year of service
• Plan assets should be valued at market
Pensions and Employee Future Benefits

• Actuarial assumptions should be based on the government’s best estimates
• Assumptions should be internally consistent
• An accrued benefit asset should be presented on the statement of financial position, net of any valuation allowance (when plan assets exceed liabilities)
• Actuarial gains and losses should be amortized over the expected average remaining service life of the related employee group

Pensions and Employee Future Benefits

• Some very significant differences from ASPE and IFRS:
  – Amortization of actuarial gains and losses over EARSL (actually no choice but to amortize, immediate recognition not possible)
  – No “corridor” approach as used to be allowed under IFRS and private sector accounting
  – Actuarial valuations suggested but not required at least every three years
  – Asset valuation – up to 5 year smoothing for assets recorded at market value
  – Can elect to measure plan assets and accrued benefit obligations for defined benefit plans at a date earlier than the financial statement date (as long as consistent and would be no material impacts between measurement date and financial statements date)
Pensions and Employee Future Benefits

• Plan Amendments
  – Costs related to prior period should be accounted for in the period of the plan amendment
  – If a plan amendment related to prior period services results in an increase to the accrued benefit obligation, if net unamortized gains exist, these should be recognized immediately, to a maximum of the prior period service cost
  – If a plan amendment related to prior period services results in a decrease to the accrued benefit obligation, if net unamortized actuarial losses exist, these should be recognized immediately, to a maximum of the decrease in accrued benefit obligation

• Plan Settlements and curtailments
  – Gains or losses should be accounted for in the period of the settlement or curtailment

• Joint defined benefit plans
  – Share risks and rewards jointly with plan participants
  – Government’s risk is limited to its portion of the plan – should account for its portion in accordance with this standard
• Disclosure requirements for defined benefit plans are substantial and include:
  – Description of the plan
  – Accrued benefit obligation
  – Market value of plan assets at beginning and end of period
  – Unamortized actuarial gains and losses and periods of amortization
  – Current period benefit cost

– Cost of plan amendments
– Other gains and losses on accrued benefit obligation, plan assets, plan settlements, or curtailments
– Amortization of actuarial gains or losses
– Change in valuation allowances
– Employee contributions
Components of retirement benefits interest expense
- Government contributions
- Amount of benefits paid
- Expected rate of return and actual rate of return
- Assumptions about long-term inflation rates, expected rate of return on plan assets, health care cost trends, rate of compensation increase and discount rate
- Date of most recent actuarial valuation

Disclosures for defined contribution plans are much reduced:
- General description of the plan
- Expense recognized in the period
- Description of significant changes to benefit plan during period
Pensions and Employee Future Benefits – Multi and Multiple Employer Plans

• Multi-employer plans
  – A multi-employer plan is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements

• Multiple-employer plans
  – A multiple-employer plan is a defined benefit plan maintained by more than one entity that is not a multiemployer plan
  – A multiple-employer plan maintains separate accounts for each entity so that contributions provide benefits only for employees of the contributing entity

Pensions and Employee Future Benefits – Multi and Multiple Employer Plans

• Multi-employer plans
  – If plan sponsor, account for as a defined benefit plan
  – If participating government, account for as a defined contribution
    – The government should disclose any information available about a surplus or deficit in a multi-employer plan

• Multiple employer plans
  – Follow the standards for defined benefit plan accounting for its obligation
• Post-employment benefits
  – Benefits provided after employment but before retirement
    • Long and short term disability, severance benefits, job training, continuation of health care and life insurance
• Compensated Absences
  – Benefits for employee absences for which the employee will be paid
    • Parental leave, accumulated sick days, and sabbaticals

• Terminations Benefits
  – Contractual termination benefits required under an existing agreement when a specific event occurs that results in downsizing or termination
  – Special termination benefits, not contractual, that are offered to employees for a short period of time in exchange for the voluntary or involuntary termination
• Recognize a liability and expense for post-employment benefits and compensated absences that vest or accumulate in the period in which the employee rendered services
• Recognize a liability and expense for post-employment benefits and compensated absences that do not vest or accumulate when the event that obligates the government occurs
• For a separately measured plan providing post-employment benefits or compensated absences that do not vest or accumulate, recognize any actuarial gains or losses
  – Immediately or over a period linked to the type of benefit

In general most public sector organizations, with the exception of a few of the very largest, do not operate their own pension plans. Instead they tend to participate in multi-employer plans and as we will see, this limits need for actuarial calculations and disclosures.
• However, many public sector organizations do offer employees the ability to accumulate sick days to a certain maximum. Typically these do not vest, meaning that they are never paid in cash. However, the ability to access this sick bank is an employee benefit and should be actuarially determined
• A contentious area for many such small organizations
  – They find it difficult to believe that will be increased usage as employee ages
  – The cost of actuarial valuations can be prohibitive for very small organizations
Pensions and Employee Future Benefits – Sick Days that Accumulate but do not vest

• ASPE
  – Mentions that sick days that accumulate but do not vest meets definition of a liability – however provides a practical exemption to recording
  – 3462.026 “…In addition, as a practical matter, an entity is not required to accrue a liability for sick-pay benefits that accumulate but do not vest.”

• IFRS
  – Used to allow to be ignored, however now must also be included in determination of employee future benefit liabilities and expenses

Pensions and Employee Future Benefits – Sick Days that Accumulate but do not vest

• IAS 19 “14 An entity may pay employees for absence for various reasons including holidays, sickness and short-term disability…falls into two categories:
  – (a) accumulating; and
  – (b) non-accumulating.
Accumulating paid absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating paid absences may be either vesting (in other words, employees are entitled to a cash payment for unused entitlement on leaving the entity) or non-vesting (when employees are not entitled to a cash payment for unused entitlement on leaving). The obligation exists, and is recognized, even if the paid absences are non-vesting, although the possibility that employees may leave before they use an accumulated non-vesting entitlement affects the measurement of that obligation.
Event-driven benefits

- A liability is recognized when an event that obligates the government occurs
- The liability is the expected cost of providing the benefit
- Example – self-insurance for long term disability
Termination Benefits

- Recognize termination benefits as a liability and expense when it is demonstrably committed to either:
  - Terminate the employment of an employee or group
    - Appropriate level of authority commits the government
    - Details communicated to employee group
    - Specific employee group/numbers identified
    - Time frame identified and changes no likely
  - Provide termination benefits as a result of an offer to encourage voluntary termination

Disclose information similar to retirement benefits

- Encouraged to disclose a general description of the plans, information about key assumptions, a reconciliation of assets and accrued benefit obligations from the beginning of a fiscal period to the end of a fiscal period, and the expense for the period
### Exercise

- Are the following benefits "employee future benefits" and if so, would they be determined actuarially?
  - Staff Christmas bonuses
  - Staff Christmas bonuses where there is a history of paying at least 5% of salary as a bonus
  - Extra week’s holiday granted for each 5 years of employment
  - Ability to continue on the entity’s benefit plan for 5 years post retirement

---

<table>
<thead>
<tr>
<th>Does the benefit Vest?</th>
<th>Does the benefit accumulate?</th>
<th>Paragraphs that apply</th>
<th>Example of benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>PS 3255.15-.20 (accrual accounting)</td>
<td>• Sick leave bank paid upon termination or retirement</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Unrestricted sabbatical</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>PS 3255.15-.20 (accrual accounting)</td>
<td>Future lump sum amounts paid unconditionally under certain job guarantee clauses</td>
</tr>
<tr>
<td>No</td>
<td>Yes</td>
<td>PS 3255.15-.20 (accrual accounting)</td>
<td>• Self-insured long-term disability income benefits</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Where the benefit is a function of years of service</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Accumulating non-vesting sick leave paid only upon illness-related absence</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
<td>PS 3255.21-.25 (event-driven accounting)</td>
<td>• Self-insured long-term disability income benefits</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Where the benefit is not a function of service</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Health and dental benefits that continue during disability</td>
</tr>
</tbody>
</table>
Pensions and Employee Future Benefits – Post-employment Benefits - **Exercise**

- Are the following benefits "employee future benefits" and if so, would they be determined actuarially?
  - Self-funded short-term disability that allows for up to 6 weeks paid sick leave
  - Guarantee of severance payout on dismissal without cause of 50 weeks’ pay
  - Guarantee of payout of 1 week per year worked if retire while in employ of entity

Pensions and Employee Future Benefits – Project Underway

- Identified as a significant area requiring review a few years ago (project approved in 2014)
- Standards were old
  - Out of touch with other frameworks
  - Difficult to deal with Target Benefit/Shared Risk and newer plan concepts
- Criticism in regard to discount rate
Pensions and Employee Future Benefits – Project Underway

• Key areas:
  – Deferrals (ITC #1)
  – Discount rate (ITC #2)
  – Non-Traditional plans (ITC #3)

Pensions and Employee Future Benefits – Project Underway

• Deferral provisions:
  – Experience results different from assumptions (experience adjustments)
  – Changes in actuarial assumptions for demographic changes, discount rate, other
  – Valuation of plan assets (allow smoothing?)
• Little to no opportunity for deferral in other frameworks
• If deferral unlikely, may be opportunity for “accumulated other” recording direct to Accumulated Surplus category
Pensions and Employee Future Benefits – Project Underway

• Discount rate:
  – No specific guidance currently in PS 3250
  – Concern from some stakeholder groups that rate typically used is high and therefore understates liability
  – Also concern about whether government’s own credit should reflect into discount rate

• Options discussed include: return on plan assets, expected return on a hedge portfolio, market yields of high-quality debt instruments, market yields of risk-free debt instruments, entity’s cost of borrowing, effective settlement rate

Pensions and Employee Future Benefits – Project Underway

• Non-traditional plans:
  – Traditional DB plans – the employer bears all the risk
  – Traditional DC plans – the employee bears all the risk
  – What to do when risks shared?
Pensions and Employee Future Benefits – Project Underway

• Non-traditional plans, issued identified:
  – Existing guidance does not address risk-sharing and target benefit provisions
  – Newer plans are complex and may have many combinations of features with no two alike – therefore will need general principles that can be applied to all circumstance rather than attempting to enumerate all types of plans
  – There is an increased use of multiemployer plans and current accounting does not reflect employer risk exposure

PSAS – Review of the Standards

Module 9 – Loans Receivable/Loan Guarantees
Loans Receivable and Loan Guarantees

• In the for-profit world, financial instruments and loan valuation/impairment is an area that many organizations spend significant time on and develop complex models.
• Due to the importance of stewardship of assets, for the most part public sector entities do not enter into dubious offerings.
• However policy may allow for purposeful lending to support public objectives.

Loans Receivable and Loan Guarantees

• PS 3050 Loans Receivable and PS 3310 Loan Guarantees share similar concept
  – Amounts expected will not be repaid or will be paid out should be recognized as an expense as soon as known or can be estimated.
Loans Receivable

• Consider a group of loans totaling $3,000,000 by an entity using IFRS 9.
  – Estimate that these type of loans have a 2% probability of default based on circumstances expected in next 12 months
  – Impairment expense in Year 1 of $60,000
  – Requirement to monitor credit risk related to loans and recognize life time expected losses if credit risk increases significantly
  – Trigger events need to be monitored and impairment could jeopardize recording of interest revenue – requirement to always be looking ahead

• Complex, complicated and conservative (and a big change from current IFRS model)

Loans Receivable

• Consider a group of loans totaling $3,000,000 issued by an entity following PSAS
  – Estimate that these type of loans have a 2% probability of default based on circumstances expected in next 12 months
  – In order to spur growth, these loans are issued at 0% interest when prevailing rate for such loans would be 5%. Term is 10 years.
  – In addition, if recipient organization can show that they added 100 additional FTE to workforce one-half of the loan will be entirely forgiven at such time.
Loans Receivable

• On issue, the loan would be calculated at fair value.
  – PV of $300,000 per year for 10 years at 5% = $2,316,520
  – Dr. Loan Receivable $2,316,520, Dr. Grant Expense $683,480, Cr. Cash $3,000,000

Loans Receivable

• (Group of loans totaling $3 million – continued)
  • Arguably no valuation allowance in regard to 2% default rate as standard is not forward looking – however if the 2% default rate results from factors known at the time there may be a valuation allowance
  • Forgivable portion actually means *entire amount* is to be recorded as a grant *unless* there is reasonable expectation of recovery
    – May not be enough facts in this simplified example, but unless it could be refuted a further 50% of the loan would be recorded as a grant
    – Dr. Grant Expense $1,158,260  Cr. Loan Receivable $1,158,260
Loans Receivable - Recognition

• Recognition should occur when:
  – The entity assumes the risks with, and acquires the right to receive repayment and can be reliably measured

• Remove when:
  – It has been repaid, risks and rewards have been transferred, or the right to repayment has expired, has been waived, or is written off

• Valuation
  – Initially at cost
  – Use allowances to reflect lower of cost or net recoverable value
  – Report net of allowances

Loans Receivable – Forgivable Loans

• When advanced with forgivable conditions
  – Treat as a grant
  – Unless;
    • it meets the definition of a loan and has a reasonable expectation of recovery

• Concessionary terms
  – expense as a grant when loan is made
  – Recorded value of the loan should be face value, discounted by the grant – the discount should be amortized over the life of the loan
**Loans Receivable – Related Issues**

- **Interest revenue**
  - Recognized as it is earned
  - Cease recognizing interest when collectability is not reasonably assured
- **Restructuring**
  - Essentially an exchange transaction
  - Costs of concessions, relating to previously accrued principal or interest, should be expensed at the time of restructuring
  - Interest should not be capitalized on the restructuring unless its recovery is reasonably assured

**Loans Receivable – Disclosure**

- **Disclose**
  - Basis of valuation
  - Policy on valuation allowances, write-offs and recoveries
  - Policy on recognition of interest
  - Nature and terms of significant loan classes
Loan Guarantees

• Promise to pay all or part of the principal and/or interest in the event of default
• Account for and report as contingent liabilities
• A provision is established when it is determined a loss is likely – requires monitoring and must be reviewed on an ongoing basis

Loan Guarantees - Disclosure

• Disclose information to describe the accounting policies selected and applied, including
  – Basis for initial recognition and measurement of the provision for losses
  – The policy with respect to changes in the provision amount
• Disclose
  – Authorized limits
  – Principal amounts outstanding
  – Amount of provisions for losses
  – General terms and conditions
Module 10 – Potpourri of other Unique PSAS Matters

PS 4200 Series for GNFPOs

- Government Not-for-Profit Organizations were brought into the PSAS Handbook in 2012
- Many such entities relied on special provisions in Part III accounting such as in areas related to Endowment Account, Restricted Fund method of revenue recognition, etc.
- In response, as a temporary measure, PSAS brought in section PS 4200 – 4270 which is almost identical to Part III
- Surprisingly, several provinces, including BC, required their GNFPOs to adopt PSAS \textit{without} use of the PS 4200 series
PS 4200 Series for GNFPOs

- Over time PSAS intends to review the 4200 series and adjust/merge/or otherwise deal with items in this section and not have differences
- To date, the PS 4260 standard “Disclosure of Related Party Transactions by Not-for-profit Organizations” has been withdrawn with the release of PS 2200 ”Related Party Disclosures”
- Issues such as Endowments continue to be a huge problem for entities such as universities that cannot use the PS 4200 series

PSAS – Review of the Standards
SLIDE 10-2

PS 4200 Series for GNFPOs

- No direct credit to Accumulated Surplus, therefore are endowment contributions revenue? This has potential to distort?
- Are Endowment investments financial assets or non-financial assets? They do not really met either definition
- This is just an example, many issues out there

PSAS – Review of the Standards
SLIDE 10-3
PS 2120 Accounting Changes

• When there is a choice between two or more appropriate principles or methods and a change is made, apply the new policy retroactively
  • Unless the necessary data is not reasonably determinable
    – Restate prior periods
  • Unless the effect of the new policy cannot be reasonably determined for individual periods – adjust opening accumulated surplus/deficit

PS 2120 Accounting Changes

• When a change in an accounting policy is made to conform to new Public Sector Accounting Standards or to adopt Public Sector Accounting Standards for the first time, the new standards may be applied retroactively or prospectively.
  • Disclose
    – Description of the change, effect on the current period, reason for the change; and
    – Reasons why amounts were or were not changed (prior year, current year, accumulated surplus)
PS 2120 Accounting Changes – Change in Accounting Estimate

- Estimating requires the exercise in judgment
- Sometimes difficult to distinguish between a change in accounting policy and a change in accounting estimate.
- Account for in the period of change and applicable future periods

PS 2120 Accounting Changes – Correction of Error

- Report retroactively and comparative information should be restated when practicable except for issues raised with a government by its auditor in one period but not corrected by the government until a subsequent period. Those issues would be accounted for in the period in which the correction is made.
- Disclose
  - Description of the error
  - Effect of the correction on current and prior periods
  - The fact the statements have been restated
• The “GAAP Hierarchy” section

• Sources of GAAP-Primary and Other
  – Apply every primary source of GAAP
  – If a primary source does not address an issue, professional judgment may be required, adopt policies consistent to primary sources and consistent with the Financial Statement Concepts section – consider other sources of GAAP
  – Must evaluate other sources and their applicability by applying professional judgment

• Primary Sources
  – *CPA Canada PSA Handbook*
    • Equal weighting of non-italicized sections
  – Public Sector Guidelines
  – Appendices

• Other Sources
  – Pronouncements issued by other bodies (IPSASB, GASB)
  – Research studies, textbooks, journals, articles
What does “consistent with primary sources” mean? Best to consider an example:
- A public sector entity purchases some of the radio spectrum for its use for $10 million
- It looks at PSAS standards and sees that there is no section on Intangible Assets

Can it use the GAAP hierarchy to get to IAS 38 “Intangible Assets” to determine how to record and disclose?
- No, because the IASB framework is not consistent with PSAS
  • PS 1000.58 says “In the absence of appropriate public sector recognition and measurement criteria for intangibles, all intangibles, including those that have been purchased, developed, constructed or inherited in right of the Crown, are not recognized as assets in government financial statements.”
PS 2125 First Time Adoption

• The purpose of this Section is to ensure that the first financial statements of a government component, government organization or government partnership, prepared in accordance with Public Sector Accounting Standards, contain high-quality information that:
  
a) is transparent for users of the financial statements and comparable over all periods presented;
  b) provides a suitable starting point for accounting in accordance with Public Sector Accounting Standards; and
  c) can be generated at a cost that does not exceed the benefits to users.
• It is quite similar to the first-time adoption standards of IFRS 1 and ASPE 1500
• There are a few nuances, so carefully review when in a first-time adoption situation

Public Sector Guidelines

• A primary source of GAAP
• PSG 1 – Cancelled (because PS 3250 encompasses)
• PSG 2 – Leased Tangible Capital Assets
  – No lease standard in PSAS other than this and PSG 5
• PSG 3 – Replaced with PSG 5
Public Sector Guidelines

- PSG 4 – Funds and Reserves
- PSG 5 – Sale-Leaseback Transactions
- PSG 6 -- Cancelled (because of Financial Instrument standards)
- PSG 7 -- Tangible Capital Assets of Local Governments (no longer needed with PS 3150)
- Has not been a new guideline in more than 10 years

Statements of Recommended Practice

- Non-authoritative
- SORP 1 – Financial Statement Discussion and Analysis
- SORP 2 – Public Performance Reporting
- SORP 3 – Assessment of Tangible Capital Assets
- SORP 4 – Indicators of Financial Condition
- Has not been a new SORP in more than 8 years
- Unlikely to be any new SORPs?
Other PSAS Handbook Sections

• There are many other PSAS Handbook sections that were not covered today
• Intended to cover some of the most important sections and those with the most differences from ASPE and IFRS
• Important though to review and become familiar with the other PSAS sections

Module 11 – Government of Errors
Government of Errors

- Review the “Government of Errors” sample financial statement in your package
- There are 6 PSAS conceptual errors that can be spotted from review of the financial statements and notes. Make note of as many as you can find.
- In addition, you may find other disclosures that do not seem accurate or complete – make note of these also for discussion.

Module 12 –

General Question and Answer