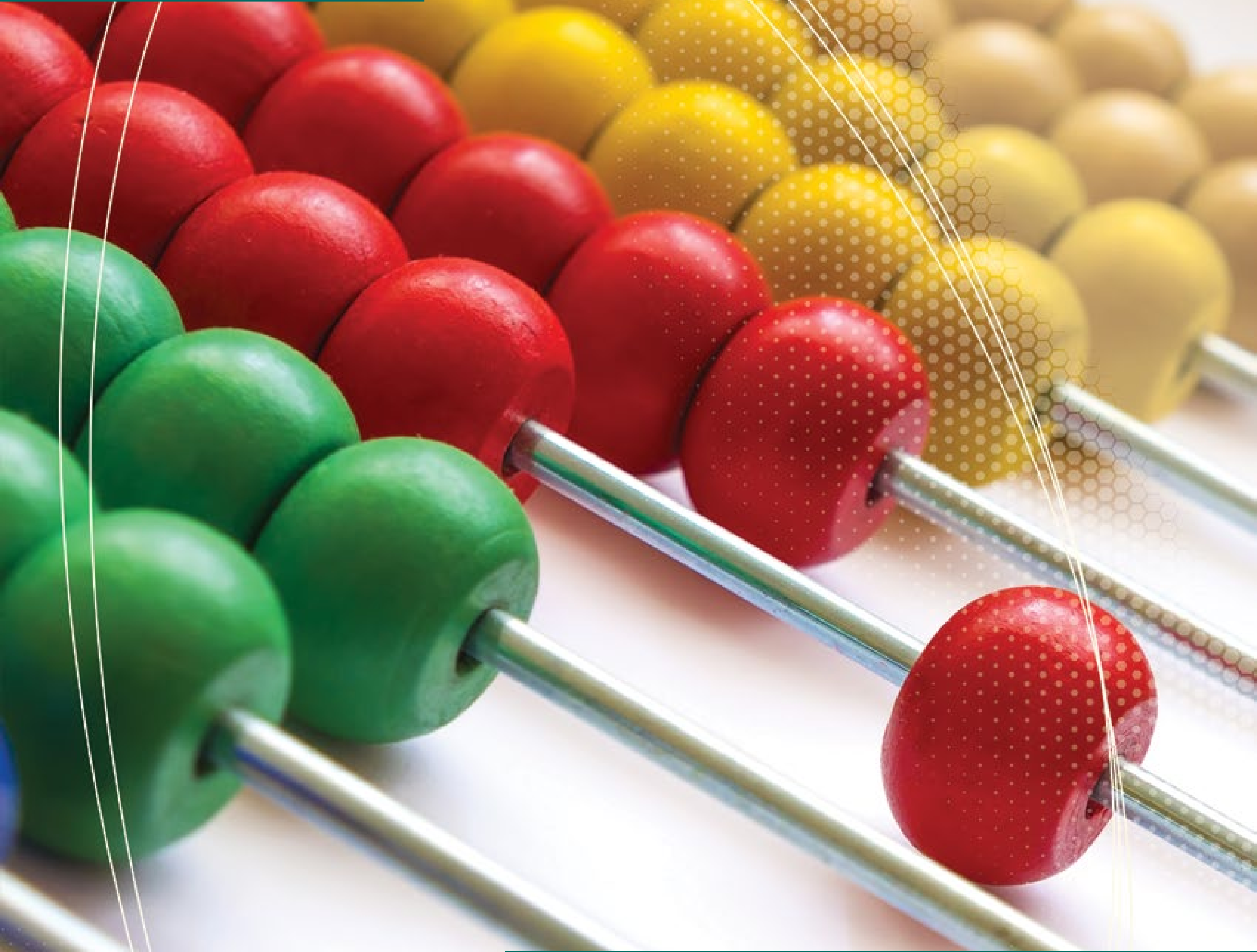
January 2016



SUMMARY OF CANADIAN PUBLIC SECTOR ACCOUNTING STANDARDS FOR GOVERNMENT ORGANIZATIONS

www.bcauditor.com

CONTENTS

BACKGROUND

INTRODUCTION

THIS PUBLICATION WAS prepared by the Office of the Auditor General of British Columbia to assist provincial government organizations in British Columbia who prepare financial statements in accordance with Public Sector Accounting (PSA) standards. This document summarizes key aspects of PSA standards for government organizations as of January 15, 2016.

The final section within this document highlights the current status of Public Sector Accounting Board (PSAB) projects. Understanding the current work of PSAB provides insights into potential future changes to the financial reporting framework.

LIMITATIONS OF THIS DOCUMENT

The government reporting entity of the Province of British Columbia comprises many different organizations, which make a multitude of transactions. No one document can be expected to address every type of transaction or reporting situation that may arise. Applying accounting standards requires professional judgement. This is particularly true for the PSA Handbook, which does not provide specific guidance in a number of areas (noted in this document). This summary includes early adoption of any new handbook standards approved by PSAB, unless specifically prohibited.

While every effort has been made to ensure the accuracy of the information presented here as of the publication date, it may not be comprehensive enough in all respects to meet the needs of every user. Accounting standards change frequently, and so some information may have changed since this document's publication. This publication is also not intended to cover all aspects of PSA Standards, or to be a substitute for reading the actual standards and interpretations when dealing with specific issues. Our Office accepts no responsibility for anyone acting, or failing to act, on the basis of this publication without seeking professional accounting advice.

FINANCIAL STATEMENT PRESENTATION FOR GOVERNMENT NOT-FOR-PROFIT ORGANIZATIONS (PS 4200)

PSA standards also include separate financial statement presentation and disclosure standards for government not-for-profit organizations (PS 4200 series). The government of British Columbia has directed government organizations to apply the PSA handbook without applying the PS 4200 series. Therefore, this document does not address the financial statement presentation and disclosure requirements for government not-for-profit organizations that elect to apply the PS 4200 series.

1. THE FRAMEWORK

Section	**PSA standards** (excluding PS 4200 series)
1.1 Objective PS 1100	PS 1100 establishes the nine financial reporting objectives for public sector financial statements. The objectives set out the unique financial reporting requirements for assessing government financial accountability and decision-making.
1.2 Users PS 1000	Information needs to highlight measures that help users assess whether the reporting entity's financial position has improved or deteriorated, and needs to explain the changes in financial position. The reporting entity's financial statements serve the interests of a variety of users such as the public, legislators, councillors, investors, analysts and other governments.
1.3 GAAP hierarchy[1] PS 1150	A reporting entity should apply every primary source of GAAP that deals with the accounting and reporting in financial statements of transactions including: a) sections; b) guidelines; and c) appendices and illustrative material. When primary sources of GAAP are not applicable or when additional guidance is needed, a reporting entity should adopt accounting policies and disclosures that are consistent with the primary sources of GAAP and the application of the concepts described in section PS 1000. The International Public Sector Accounting Standards Board (IPSASB) develops International Public Sector Accounting Standards (IPSAS) for governments and other public sector entities around the world. IPSAS is frequently consulted as an additional source of guidance when the primary sources of GAAP are not applicable or additional guidance is needed.
1.4 Assets PS 1000 PS 3210[2]	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.

1. THE FRAMEWORK

Section	**PSA standards** (excluding PS 4200 series)
1.5 Liabilities PS 1000 PS 3200	Liabilities have three essential characteristics: a) they embody a duty or responsibility to others, leaving a reporting entity 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, by provision of goods or services or by other form of economic settlement, at a specified or determinable date, on occurrence of a specified event, or on demand; and c) the transaction or event obligating the reporting entity has already occurred.
1.6 Revenue PS 1000	Revenues, other than gains, can arise from: taxation; the sale of goods; the rendering of services; the use by others of government economic resources yielding rent, interest, royalties or dividends; or contributions received, such as grants, donations and bequests.
1.7 Expenses PS 1000	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.

2. FINANCIAL STATEMENT PRESENTATION

Financial statement	**PSA standards** (excluding PS 4200 series)
2.1 Statement of financial position PS 1201 PSG-4	Five key figures describe the financial position: a) financial assets; b) liabilities; c) net debt position (liabilities minus financial assets); d) non-financial assets; and e) accumulated surplus/deficit. The current year statement of financial position should be presented with prior year comparatives.
2.2 Statement of operations PS 1201	A reporting entity should report: a) revenues by significant types; b) expenses by function or major program; c) operating surplus or deficit for the period (difference between revenues and expenses); and d) accumulated operating surplus/deficit at the beginning and end of the period (this may be presented on either the statement of operations or a separate statement). The statement of operations excludes remeasurement gains and losses, and other comprehensive income from government business enterprises (GBEs) and government business partnerships (GBPs). These amounts are recorded in the statement of remeasurement gains and losses. The current year statement of operations should be presented with prior year and originally planned (budgeted) comparatives.
2.3 Statement of remeasurement gains and losses PS 1201	This statement reports the accumulated and annual impact of: • unrealized gains and losses for financial instruments in the fair value category unless subject to external restrictions and unrealized foreign currency gains and losses; • amounts reclassified to the statement of operations upon derecognition or settlement; and • other comprehensive income from GBEs and GBPs consolidated using the modified equity method. Refer to the consolidation principles in section 5.1 for further details. *Continued...*

2. FINANCIAL STATEMENT PRESENTATION

Financial statement	**PSA standards** (excluding PS 4200 series)
2.3 Statement of remeasurement gains and losses PS 1201	*Continued...* Note that the reclassification of realized gains and losses to the statement of operations will require tracking of the cost base relative to recorded value for all financial instruments recorded at fair value and for items denominated in foreign currencies. Remeasurement gains and losses where investment income is externally restricted are accounted for in accordance with PS 3100 restricted assets and revenues. See section 3.2.3 for further details. Disclosure should distinguish between foreign exchange gains and losses on items recorded at amortized cost and changes in the fair value of: • derivatives; • portfolio investments recorded at fair value; and • financial instruments designated to the fair value category. The current year statement of remeasurement gains and losses should be presented with prior year comparatives. Refer to sections 5.4 (foreign exchange) and 5.5 (financial instruments and risks disclosures) for further details.
2.4 Statement of change in net debt PS 1201	Net debt is the remainder of liabilities less financial assets. The accumulated surplus/deficit is the remainder of non-financial assets less net debt. The statement of change in net debt should report the extent to which the expenditures (including capital expenditures) of the accounting period are met by the revenues recognized. It should report net debt at both the beginning and end of the accounting period. The statement of change in net debt should explain the difference between the surplus/deficit for the period, including: • acquisition of tangible capital assets (TCAs); • disposals of TCAs; • amortization of TCAs; • adjustments relating to write-downs of TCAs; • consumption of other non-financial assets; • expenditures to acquire other non-financial assets; *Continued...*

2. FINANCIAL STATEMENT PRESENTATION

Financial statement	**PSA standards** (excluding PS 4200 series)
2.4 Statement of change in net debt PS 1201	*Continued...* ◆ remeasurement gains and losses; and ◆ other comprehensive income arising in applying the modified equity method when reporting on the results of government business enterprises and government business partnerships. Prior year comparatives are presented as well as originally planned (budgeted) comparatives on the statement of change in net debt.
2.5 Statement of cash flows PS 1201	The statement of cash flows should report how a reporting entity generated and used cash and cash equivalents in the accounting period, and what the change in cash and cash equivalents was in the period. The statement of cash flows should also report the cash and cash equivalents at both the beginning and end of the accounting period. The statement of cash flows should report cash flows during the period, classified by operating, capital, investing, and financing activities. Use of the direct method is encouraged.

3. STATEMENT OF FINANCIAL POSITION

Financial statement item	PSA standards (excluding PS 4200 series)
3.1 Financial assets	
3.1.1 Definition PS 1000 PS 1201 PS 3210[2]	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. They may include inventories or items for resale. The indicator of net debt is determined by deducting the financial assets from liabilities. The statement of financial position should report financial assets segregated by main classifications, such as: a) cash and cash equivalents; b) revenues receivable; c) inventories for resale and other assets held for sale that meet the requirements of section PS 1201.055; d) loans to other governments; e) other loans; f) portfolio investments; g) investments in government business enterprises; and h) investments in government business partnerships.
3.1.2 Cash and cash equivalents PS 1201	Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. They are held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. An investment would normally qualify as a cash equivalent only when it has a short maturity (generally three months or less from the date of acquisition).
3.1.3 Revenues receivable PS 1201 PS 3410 PS 3450 PS 3510	The PSA Handbook includes specific guidance on what triggers recognition of revenues (and receivables) relating to contributions and taxation. Receivables are primarily measured at cost or amortized cost. However, the financial instruments standard does include the option to fair value financial assets in specific situations. Refer to the financial instruments discussion in section 5.5 for further details. For longer term accounts receivable, the effective interest rate method of measuring interest is required.

3. STATEMENT OF FINANCIAL POSITION

Financial statement item	PSA standards (excluding PS 4200 series)
3.1 Financial assets	
3.1.4 Inventories for resale PS 1000 PS 1201	An asset held for sale should be recognized as a financial asset when all of the following criteria are met: a) the reporting entity is committed to selling the asset; b) the asset is in a condition to be sold; c) the asset is publicly seen to be for sale; d) there is an active market for the asset; e) there is a plan in place for selling the asset; and f) it is reasonably anticipated that the asset will be sold outside the reporting entity within one year of the reporting date. The PSA Handbook does not have detailed guidance on inventory costing methods when conversion processes occur within the organization. In keeping with the PSA Handbook hierarchy of GAAP (PS 1150), organizations would likely refer to other sources of GAAP for this detailed guidance.
3.1.5 Loans receivable and other loans PS 3050 PS 3450	Loans receivable will in most cases be recorded at amortized cost although the option is available to include loans receivable in the fair value measurement category when specific conditions are met. Refer to the discussion of financial instruments in section 5.5 for further details. Valuation allowances should be used to reflect loans receivable at the lower of cost and net recoverable value. When the amount of a loss is known with sufficient precision, the loan receivable should be reduced by the amount of that loss. The effective interest rate method is used for measuring interest income. A reporting entity should disclose the nature and terms of significant classes of loans receivable, as well as describe the accounting policies applied to its loans receivable. Additional disclosure may be required for concessionary, forgivable or other forms of loans receivable.
3.1.6 Portfolio investments PS 3041 PS 3450	Portfolio investments are investments in organizations that are not controlled by the reporting entity. Such investments are normally shares or bonds and exclude loans receivable. The standard for financial instruments requires derivatives and portfolio equity investments quoted in an active market to be measured at fair value. Government organizations may also decide to include other portfolio investments in the fair value measurement category when the performance of those financial assets is assessed on a fair value basis. All other portfolio investments would be measured at cost or amortized cost. *Continued...*

3. STATEMENT OF FINANCIAL POSITION

Financial statement item	**PSA standards** (excluding PS 4200 series)
3.1 Financial assets	
3.1.6 Portfolio investments PS 3041 PS 3450	*Continued...* All portfolio investments must be assessed annually for impairment. When the loss in value of a portfolio investment is other than temporary, the investment should be written down to recognize the loss. The write down is included in the statement of operations. Impairment losses on portfolio investments are not reversed if there is a subsequent increase in investment value. For portfolio investments measured using fair values, subsequent changes in value are reported in the statement of remeasurement gains and losses. Any gains or losses from the sale of portfolio investments should be included in the statement of operations in the period of the sale. For portfolio investments in the fair value measurement category, sale also requires reclassification of unrealized gains and losses previously included in the statement of remeasurement gains and losses to the statement of operations. When investment income is externally restricted, unrealized and realized gains and losses are recorded as deferred revenue until the restrictions are satisfied. Refer to section 3.2.3 for more details on externally restricted assets and revenues. Portfolio investments should be reported separately on the statement of financial position.
3.1.7 Derivatives PS 3450	Derivatives and embedded derivatives that are not closely related to the host financial instrument are recorded in the financial statements at fair value in most cases. Gains or losses resulting from changes in the fair value of derivatives (i.e., unrealized gains and losses) are recorded in the statement of remeasurement gains and losses, and are transferred to the statement of operations when realized.
3.2 Liabilities	
3.2.1 Definition PS 1000 PS 1201	Liabilities are present obligations that a reporting entity has to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. The statement of financial position should report liabilities segregated by main classifications, such as: a) accounts payable and accrued liabilities; b) liabilities for employee future benefits; c) deferred revenue; d) borrowings; and e) loans from other reporting entities

3. STATEMENT OF FINANCIAL POSITION

Financial statement item	PSA standards (excluding PS 4200 series)
3.2 Liabilities	
3.2.2 Accounts payable and accrued liabilities PS 1000 PS 1201 PS 3200	Liabilities have three essential characteristics: a) they embody a duty or responsibility to others, leaving 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 giving rise to the obligation have already occurred. Obligations are not liabilities unless they meet the three characteristics of liabilities.
3.2.3 Deferred revenue and deferred contributions PS 1000 PS 1201 PS 3100 PS 3200 PS 3410 PSG-4	**Exchange transactions** Revenues should be recognized in the period in which the transactions or events that gave rise to the revenues occurred. For exchange transactions, detailed guidance is not provided in the PSA Handbook beyond the general recognition principles present in sections PS 1000 and PS 1201. **Non-exchange transactions** For non-exchange transactions, PSA standards provide specific guidance for revenues from government transfers and taxes. In the case of government transfers, revenue should be recorded when the transfer has been authorized and any eligibility criteria have been met except to the extent that transfer stipulations give rise to obligations that meet the definition of a liability. If a liability exists, the revenue is recognized as the liability is extinguished. Taxation revenue should be recorded when the taxable event occurs, provided that the tax has been authorized. Externally restricted inflows from non-government sources should be recognized as revenue in the period in which the resources are used for the purposes specified. An externally restricted inflow received before this criterion has been met should be reported as deferred revenue until the resources are used for the purposes specified. This accounting also applies to investment income (including remeasurement gains and losses) that are subject to external restrictions. **Proposed standard** PSAB has also begun a project related to establishing a revenue recognition standard for classifying and recognizing a broad range of public sector revenues. Refer to the summary of this project in section 6.1.

3. STATEMENT OF FINANCIAL POSITION

Financial statement item	**PSA standards** (excluding PS 4200 series)
3.2 Liabilities	
3.2.4 Employee future benefits PS 3250 PS 3255	Accounting for employee future benefits is complex and the information in this summary describes only basic concepts. Government organizations should review the accounting standards to determine the requirements specific to their plans. Retirement benefits, post-employment benefits, and compensated absences are accounted for as liabilities. Defined benefit plans sponsored by the reporting entity are subject to periodic actuarial valuations to attribute the cost of the benefits to the periods of employee service and to determine the liability and assets (if any) to be reported. Each government organization, other than the sponsoring government, that participates in a defined benefit multi-employer plan should apply the accounting standards for defined contribution plans when insufficient information is available to apply the defined benefit plan accounting standards. Government organizations 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 the practice is applied consistently and there is no significant change relevant to the valuation of the plan between the measurement date and the financial reporting date. Changes arising from plan amendments are accounted for when the amendments go into effect. For event driven compensated absences (PS 3255), the government organization can elect to recognize actuarial gains or losses over the average remaining employee service life or immediately as long as the practice is applied consistently. For defined contribution plans, current contributions are included as an expense in the Statement of Operations. PSAB is the process of forming an Employment Benefits task force. See section 6.4 for more information about this project.

3. STATEMENT OF FINANCIAL POSITION

Financial statement item	PSA standards (excluding PS 4200 series)
3.2 Liabilities	
3.2.5 Contaminated sites and asset retirement obligations PS 3200 PS 3260 PS 3270	PS 3260 – Liability for Contaminated Sites addresses how to account for and report the liability for remediation of contaminated sites. The standard defines which activities would be included in a liability for remediation, when to recognize and how to measure a liability for remediation and related financial statement presentation and disclosure requirements. The standard specifically excludes liabilities associated with the retirement of long-lived capital assets and assets in productive use which is discussed later in this section. A liability for remediation of contaminated sites should be recognized when an environmental standard exists, the contamination exceeds the standard, the entity is directly responsible or accepts responsibility, future economic benefits are expected to be given up and a reasonable estimate of the amount can be made. To be recorded as a liability, all criteria must be satisfied. The estimate of a liability should include costs directly attributable to remediation activities. Costs would include post remediation operation, maintenance and monitoring that are an integral part of the remediation strategy. Estimates would include costs of assets acquired as part of remediation activities to the extent those assets have no alternate use. The estimate of the liability should be updated annually based on the most recent information available at the financial statement date. The PSA Handbook does not have a specific standard addressing asset retirement obligations; however, these obligations do meet the definition of a liability. Users should apply the GAAP hierarchy (PS 1150, see section 1.3 above), to identify the appropriate accounting guidance. Note that PSAB currently has a project underway to address the treatment of asset retirement obligations (See section 6.2). A specific standard does exist for how to account for and report the liability for closure and post-closure care of a solid waste landfill site (PS 3270).
3.2.6 Long-term debt, borrowings and loans from other entities PS 3230 PS 3450 PSG 2	The statement of financial position shows the gross amount of debt outstanding. Financial liabilities are primarily measured at amortized cost; however, the option to measure financial liabilities at fair value is available in some circumstances. The effective interest rate method is required for measuring interest expense. The notes to the financial statements provide additional information about interest rates, repayment dates (and the nature of repayment), and amounts due on demand. The aggregate amount of payments to be made in each of the next five years, and the total amount in subsequent periods, should also be disclosed. The estimated amount of Canadian dollar payments to meet foreign currency debt retirement provisions should be disclosed separately. *Continued...*

3. STATEMENT OF FINANCIAL POSITION

Financial statement item	**PSA standards** (excluding PS 4200 series)
3.2 Liabilities	
3.2.6 Long-term debt, borrowings and loans from other entities PS 3230 PS 3450 PSG 2	*Continued...* Where sinking funds that have been externally restricted are set aside for the retirement of debt, the statements should disclose: a) the gross amount of the long-term debt to be retired by the sinking funds; and b) the amount of sinking fund assets available to retire the debt. The interest expense should be disclosed, and should include the amortization of long-term debt discounts or premiums and issuance expenses. Liabilities related to leased tangible capital assets should be reported separately from other debt. If any liabilities are secured, they should be stated separately and the fact that they are secured should be indicated. Any assets pledged as security, including their carrying value, should also be disclosed. Any defaults in principal, interest, sinking fund or redemption provisions should be disclosed. If the reporting entity holds its own debt instruments, the gross amount of that class of debt should be disclosed, as well as the amount of the securities held by the entity but not cancelled.
3.2.7 Contingent liabilities PS 3300	A contingent liability is recognized when it is likely a future event will confirm that a liability has been incurred and the amount can be reasonably estimated. It is derecognized when it is settled or otherwise extinguished, or when the existence of a liability at the financial statement date is unlikely. Regardless of whether contingent liabilities meet the requirements for accrual, as a minimum, knowledge of the existence, nature and extent of these types of obligations is warranted because they indicate a possible claim on the economic resources of the entity. PS 3300 includes additional guidance regarding when additional disclosures should be made.
3.2.8 Loan guarantees PS 3310	Loan guarantees should be reported as contingent liabilities in the financial statements. A provision for loss on loan guarantees should be established when a loss is likely, and should be accounted for as a liability and an expense. Any changes to the provision for losses is charged or credited to the statement of operations.

3. STATEMENT OF FINANCIAL POSITION

Financial statement item	PSA standards (excluding PS 4200 series)
3.3 Non-financial assets	
3.3.1 Definition PS 1000 PS 1201	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. The statement of financial position should report non-financial assets segregated by main classifications, such as: a) tangible capital assets; b) inventories held for consumption or use; and c) prepaid expenses Under PSA standards, assets may be valued in terms of service potential.
3.3.2 Tangible capital assets and amortization PS 3150	Tangible capital assets are recorded at cost. When a tangible capital asset consists of a number of components with unique useful lives, the government organization can decide to recognize the components as separate assets if componentization results in more useful information for decision making purposes. When conditions indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value. Such write-downs are not reversed.
3.3.3 Leased tangible capital assets PG-2 PG-5	Leased tangible capital assets are dependent on whether the contract transfers the benefits and risks of ownership to the reporting entity. When the contractual arrangement contains multiple elements such as ongoing services, the recognition and valuation of a leased tangible capital asset is based solely on the contractual arrangement components related to the property. The discount rate used to determine the present value of the minimum lease payments is the lower of the entity's rate for incremental borrowing and the interest rate implicit in the lease, if practicable to determine. However, the maximum value recorded for the asset may not exceed the leased property's fair value.

3. STATEMENT OF FINANCIAL POSITION

Financial statement item	**PSA standards** (excluding PS 4200 series)
3.3 Non-financial assets	
3.3.4 Prepaid expense PS 1201	Prepaid expenses are recognized in the Statement of Operations as the goods or services are used or consumed in the delivery of services. Prepaid expenses are presented in the Statement of Financial Position as non-financial assets.
3.3.5 Inventories held for consumption or use PS 1201	Inventories held for consumption or use are defined as tangible non-financial assets that will be used or consumed by the reporting entity in the course of its operations. The PSA Handbook currently does not have detailed guidance on inventory costing methods when conversion processes occur within the organization. In keeping with the GAAP hierarchy (PS 1150), organizations would likely refer to other sources of GAAP for this detailed guidance.

4. STATEMENT OF OPERATIONS

Financial Statement Item	**PSA Standards** (excluding PS 4200 series)
4.1 Revenues PS 1201	Revenues should be recognized in the period in which the transactions or events occurred that gave rise to the revenues. Refer to section 3.2.3 for revenue recognition criteria for exchange and non-exchange transactions. A reporting entity reports revenues by significant types such as revenues from taxes, non-tax sources and transfers from other governments. Significant sources of these revenues include user fees, investments, natural resource revenues, transfers from other governments, taxation, and other revenue. Refer to the sample model financial statements accompanying this document for an example of presentation and disclosure of revenues. **Proposed Standard** PSAB is proposing a standard on establishing a revenue framework for classifying and recognizing a broad range of public sector revenues. Refer to the summary of this project in section 6.1.
4.2 Expenses PS 1201	A reporting entity reports expenses by function or major program and discloses them by object and in total in the notes. Therefore, the individual account name of the expense will be different depending on the entity. Refer to the sample model financial statements accompanying this document for an example of presentation and disclosure of expenses.

5. OTHER SPECIFIC TOPICS

Topic	**PSA standards** (excluding PS 4200 series)
5.1 Consolidation principles PS 1300 PS 2500 PS 2510 PS 3060 PS 3070	Government financial statements should consolidate the financial statements of organizations comprising the government reporting entity, except for government business enterprises. Partnerships and joint ventures are accounted for using the proportionate consolidation method. When a non-controlling interest exists in a subsidiary, the reporting entity should include that subsidiary in its financial statements on a proportionate consolidated basis. The financial statements should disclose the existence of the non-controlling interest. Government business enterprises (GBEs) and government business partnerships should be accounted for using the modified equity method. A GBE is an organization that has all of the following characteristics: a) it is a separate legal entity with the power to contract in its own name and the ability to sue and be sued; b) it has been delegated the financial and operational authority to carry on a business; c) it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and d) it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity. A government business partnership is a government partnership that has all of the characteristics of a GBE. Transactions and balances between government units are eliminated on consolidation. Government units, as defined, exclude GBEs and government business partnerships. However, unrealized gains and losses arising on transactions between government units and GBEs or government business partnerships are required to be eliminated. If an entity becomes a GBE (or a government business partnership), accounting for the change cannot create revenue or result in reporting tangible capital assets that would improve the net financial position of the reporting entity that consolidates it.
5.2 Goodwill and intangible assets PS 1201	No intangibles – including those that have been purchased, developed, constructed or inherited in right of Crown – are recognized as assets in government financial statements. This should be disclosed as part of the accounting policies. Computer software is included in the definition of tangible capital assets.

5. OTHER SPECIFIC TOPICS

Topic	**PSA standards** (excluding PS 4200 series)
5.3 Accounting changes PS 2120	Accounting changes are treated as follows: **a) <u>Change in accounting policy</u>** – A change in accounting policy should be applied retroactively, unless the necessary financial data are not reasonably determinable. Description of the change, its effect on the financial statements and the reason for the change should be disclosed. **b) <u>Correction of an error</u>** – Correction of an error is reported retroactively. Comparative figures are restated unless it is impractical to do so. Description of the error, its effect on the financial statements and restatement of prior periods should be disclosed. Errors identified by the auditor in one period but corrected by management in a subsequent period are accounted for in the period of correction. **c) <u>Change in accounting estimate</u>** – A change in estimate is recognized in the period of the change and applicable future periods. Disclosure is usually not necessary unless it is a change in an accounting estimate that is rare or unusual, and that may affect financial results of both current and future periods.
5.4 Foreign exchange PS 2601	The accounting for foreign currency transactions is addressed, but detailed guidance on the consolidation of subsidiaries denominated in foreign currencies is not provided. At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars at the rate in effect on that date. At the financial statement date: • monetary assets and liabilities denominated in a foreign currency; and • non-monetary financial instruments included in the fair value measurement category are adjusted to reflect the exchange rate in effect at that date. Unrealized exchange gains or losses arising from changes in foreign exchange rates are recognized in the statement of remeasurement gains and losses. When an exchange gain or loss is settled, the cumulative remeasurement gains or losses are reversed in the statement of remeasurement gains and losses and are recognized in the statement of operations. PSA standards require the disclosure of exchange gains and losses recognized in the statement of operations and the statement of remeasurement gains and losses. Separate disclosure of foreign exchange gains and losses for financial instruments included in the fair value measurement category is not required.

5. OTHER SPECIFIC TOPICS

Topic	**PSA standards** (excluding PS 4200 series)
5.5 Financial instruments and risk disclosures PS 3450	Financial instruments within the scope of PS 3450 are measured at either fair value, or cost/amortized cost. Derivatives and portfolio investments in equity instruments quoted in an active market are measured at fair value. Management may also include in the fair value measurement category financial assets and/or liabilities that are managed and evaluated on a fair value basis. The accounting policy decision to include other financial assets and financial liabilities in the fair value measurement category is disclosed in the notes to the financial statements. A change in the fair value of a financial instrument in the fair value category is reported in the statement of remeasurement gains and losses until the financial instrument is derecognized. Realized gains and losses are reclassified from the statement of remeasurement gains and losses to the statement of operations. When the financial instrument fair value changes are externally restricted the requirements of *PS 3100 Restricted Assets and Revenues* apply. Refer to section 3.2.3 for more details on externally restricted assets and revenues. Transaction costs for financial instruments in the fair value measurement category are expensed but are included as a component of cost for the cost/amortized cost measurement category. The effective interest rate method is used for measuring interest and amortizing transaction costs. All financial assets are assessed for impairment at each financial statement date. The requirement to assess financial assets for impairment includes non-derivative financial assets in the fair value category. Impairment charges are indicative of a loss that is other than temporary and should be reported in the statement of operations. A financial asset and a financial liability should be offset and the net amount reported in the statement of financial position when, and only when, a government currently has a legally enforceable right to set off the recognized amounts; and, intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. *Continued...*

5. OTHER SPECIFIC TOPICS

Topic	**PSA standards** (excluding PS 4200 series)
5.5 Financial instruments and risk disclosures PS 3450	*Continued...* Hedge accounting is not permitted by PSA standards. The standards require disclosure of the risks arising from financial instruments and how management is managing those risks. The common financial instrument risks that may require disclosure in the notes to the financial statements are credit risk, liquidity risk, currency risk, interest rate risk and other price risk. For each risk the disclosures should include: • the risk exposure and how it arises; • the entity's objectives, policies and procedures for managing the risk and the methods for measuring the risk; • any changes to the above from the previous period; and • quantitative analysis of the risk exposure at the financial statement date including sensitivity analysis where applicable and the assumptions used in preparing the analysis.
5.6 Segment disclosures PS 2700	A segment is a distinguishable activity or group of activities of a reporting entity for which it is appropriate to separately report financial information to help users of the financial statements. Segment reporting is required for governments, but only encouraged for government organizations when their operations are diverse enough to warrant it. Different bases of segmentation include: by major functional classification of activities; by service line segments; and by segments that reflect the different accountability and control relationship between the government and various organizations in the reporting entity. The standard outlines the disclosures required with respect to the reporting entity's segments.
5.7 Related parties PS 2200[3] PS 3420[4]	PS3420 Inter-entity transactions establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both the provider and recipient perspective. Most inter-entity transactions should be recorded at the carrying amount determined at the transaction date. Exceptions to the use of carrying value for recognized transactions include the following: • transactions undertaken on similar terms and conditions as if the entity were dealing at arm's length, which are measured at the exchange amount; Continued...

5. OTHER SPECIFIC TOPICS

Topic	**PSA standards** (excluding PS 4200 series)
5.7 Related parties PS 2200[3] PS 3420[4]	*Continued...* • when assets or liabilities are transferred for nominal or no consideration, the recipient has the option to measure the assets or liabilities using fair value; • transactions involving allocated costs and recoveries are recorded at the exchange amount with the provider reporting revenues and expenses on a gross basis; and • where a recipient has an accounting policy to recognize unallocated costs, the recipient can measure the transactions at fair value, unless policy, budget practices or accountability structures dictate otherwise. If there is a difference between the exchange amount and carrying amount, a gain or loss should be reported on the statement of operations. PS 2200 Related party disclosures provides guidance for identifying related party transactions that require disclosure. Disclosure is normally required when related party transactions have occurred at a value different from that which would have occurred between unrelated parties and the transactions have a material effect on the financial statements. When identifying related party transactions, related parties includes key management personnel and close family members of key management personnel. Required related party disclosures include: • adequate information about the nature of the relationship with related parties involved in related party transactions; • the types of related party transactions that have been recognized; • the amounts of transactions by financial statement category the basis of measurement used; • the amount of outstanding balances and related terms; • contractual obligations with related parties separate from other contractual obligations; • contingent liabilities involving related parties separate form other contingent liabilities; and • the types of related party transactions that have occurred for which no amount has been recognized Similar items should be disclosed in aggregate.

5. OTHER SPECIFIC TOPICS

Topic	**PSA standards** (excluding PS 4200 series)
5.8 Subsequent events PS 2400	There are two types of subsequent events: a) conditions that existed at the financial statement date; and b) conditions subsequent to the financial statement date. The extent to which, and the manner in which, the effect of a subsequent event is reflected in the financial statements will depend on its type. Financial statements should be adjusted for conditions that existed at the date of the financial statements. Disclosures are required when the conditions or events after the financial statement date either will cause a significant change to assets or liabilities, or may have a significant effect on future operations.
5.9 Public private partnerships (P3s) PS 1000 PS 1300 PS 3150 PS 3060 PSG - 2 IPSAS 32	There are no standards specific to P3's in the PSA Handbook. Each P3 arrangement needs to be looked at separately to determine what accounting treatment is appropriate for it. Key factors – for example, control over the asset, risks and rewards associated with the asset, and the ultimate ownership of the asset at the end of the P3 arrangement – vary from one P3 to another. Relevant PSA Handbook sections would include those relating to the conceptual definition of an asset in section PS 1000, and the standards for government partnerships, tangible capital assets, and assets under capital lease. Other sources of GAAP may be used to determine the accounting treatment for P3s. For example, IPSAS 32 service concession arrangements highlights the recognition and measurement of service concession assets, liabilities, revenues and expenses. Because of the complexity of this subject, it is necessary for the reporting entity to look at the terms and conditions of the contract agreement to determine how assets, liability, expenses and revenues should be recognized.
5.10 Measurement uncertainty PS 2130 PS 2120.28	Measurement uncertainty exists when there is a variance between an estimated amount that has been recognized or disclosed in the financial statements, and another reasonably possible estimate for the same item. When it is reasonably possible that there might be a material change in the course of the next fiscal year in an estimated amount that has been recognized or disclosed in the financial statements, information about the nature and extent of the uncertainty must be disclosed in the notes to the financial statements. *Continued...*

5. OTHER SPECIFIC TOPICS

Topic	**PSA standards** (excluding PS 4200 series)
5.10 Measurement uncertainty PS 2130 PS 2120.28	*Continued...* The disclosure should identify the item that is uncertain and the amount at which it is recorded or disclosed, unless such disclosure would have a significant adverse effect – in which case the notes should specify the reason the amount is not disclosed. When there is a change in an amount estimated, the effect of the change must be accounted for in the period in which the change occurs. If such a change is rare or unusual, disclosure of the nature and effect of the change may be desirable.
5.11 Government transfers PS 3410	Government transfers are transfers of monetary assets or tangible capital assets from a government or government organization to an individual, an organization or another government for which the transferring government does not: • receive any goods or services directly in return; • expect to be repaid in the future; or • expect a direct financial return. The standard establishes when to recognize a transfer based on if the government is providing or receiving the transfer. The standard distinguishes between eligibility criteria (conditions met to receive the transfer) and stipulations (terms imposed on the transfer by the transferor after it is received). **Expense recognition** The transferor should recognize an expense in the period the transfer is authorized and all eligibility criteria to receive the transfer have been met by the recipient. Transfers of tangible capital assets are measured at net book value. **Revenue recognition** A government transfer should be recognized as revenue when the transfer is authorized and the eligibility criteria have been met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. If a liability exists, the revenue is recognized as the liability is settled. **Disclosure** The financial statements should disclose the major types of transfers recognized in the accounting period as well as information about the nature and terms of any liabilities arising from government transfers received.

5. OTHER SPECIFIC TOPICS

Topic	**PSA standards** (excluding PS 4200 series)
5.12 Restructuring transactions PS 3430[5]	Restructuring transactions result from the transfer of program or operating responsibilities along with an integrated set of assets and liabilities in a transaction of a non-purchase nature. Transferors should derecognize individual assets and liabilities transferred in a restructuring transaction at their carrying amount at the restructuring date. Recipients should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with the following adjustments at the restructuring date: a) to comply with PSA standards; b) to align with accounting policies and assumptions to be adopted by the recipient; and c) to reflect the circumstances of the recipient. The net effect of a restructuring transaction should be presented as a separate revenue or expense item in the statement of operations. Compensation not dependant on future events or transactions should be recognized at the restructuring date, regardless of the timing of payment. Restructuring-related costs are recognized in accordance with the applicable section of the PSA Handbook. For example, termination benefits would be recognized as an expense in accordance with *PS 3255 Post-employment benefits, compensated absences and termination benefits.* PS 3430 requires specific disclosures for both the transferor and recipient so that users receive sufficient information to assess the nature and financial effects of a restructuring transaction on an entity's financial position and operations.
5.13 Contractual rights and obligations PS 3380[2] PS 3390	Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future. Contractual rights are distinct from assets because there has not been a past transaction or event. Contractual rights are distinct from contingent assets as there is no uncertainty related to the existence of the contractual right. Contractual obligations are defined as obligations a reporting entity has to others that will become liabilities in the future when the terms of the contracts or agreements in question are met. Information about a public sector entity's contractual rights and obligations should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature, extent and timing.
5.14 Contingent assets PS 3320[2]	Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the entity's control occurs or fails to occur. Resolution of uncertainty will confirm the existence or non existence of an asset. Disclosure of infomation for contingent assets is required when the confirming event is likely.

6. PSAB PROJECTS IMPACTING FUTURE ACCOUNTING STANDARDS

THE PROJECTS LISTED below will impact future accounting standards. Note that this information is current only as of the date of publication. For information on current projects, visit the PSAB website.

Before adopting a new standard or making any choices available when adopting a new standard, provincial government organizations should consult the Office of the Comptroller General.

CURRENT PROJECTS

6.1 Revenue

PSAB is deliberating comments received on the Statement of Principles (SOP). An exposure draft is in development with expected release Q2 of 2016.

The current PSA Handbook contains handbook sections for two major sources of government revenues: government transfers and taxation revenue. However, there is a need to develop revenue recognition principles that apply to revenues that are commonly encountered in the public sector and not addressed by standards for profit-oriented entities.

The main features of the SOP issued include:

- two main areas of revenue:
  - exchange transactions; and
  - unilateral (non-exchange) transactions.
- the presence of performance obligations for the public sector entity receiving the revenue is the distinguishing feature of an exchange transaction.
- performance obligations are enforceable promises to provide goods or services.
- an exchange transaction is evaluated to identify which goods or services are distinct and accounted for as a separate performance obligation.
- revenue from an exchange transaction is recognized as the public sector entity satisfies a performance obligation.
- unilateral revenues are recognized when there is the authority and a past event that gives rise to a claim of economic resources.
- revenue is not reduced when collectability (associated with credit risk) is uncertain.

6.2 Asset retirement obligations

PSAB is deliberating comments received on the SOP. An exposure draft is in development with expected release Q2 of 2016.

This project would address the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of long-lived tangible capital assets currently in productive use.

6.3 Concepts underlying financial performance

The objective of the project is to review and amend, if necessary, the conceptual framework in sections PS 1000, Financial Statement Concepts and PS 1100, Financial Statement Objectives. The review could also affect Section PS 1201, Financial Statement Presentation. The issues to be addressed include how to measure financial performance, a review of existing measures and consideration of alternative approaches to the key concepts underlying financial performance to determine how they affect the measure of financial performance.

PSAB is currently seeking comments on their consultation paper, and plans to deliberate comments in 2016.

6.4 Employment benefits

A task force is being assembled to review PS 3250 – Retirement Benefits and PS 3255 – Post-employment Benefits, Compensated Absences and Termination Benefits. The initial project phase will include reviewing issues such as deferral of experience gains and losses, discount rate, shared risk plans, multi-employer defined benefit plans and vested sick leave as well as considering improvements to existing guidance. The intended outcome of this project is a new comprehensive standard on employment benefits to replace the two existing sections.

ENDNOTES

1 GAAP hierarchy is an outline for determining the most appropriate sources for obtaining guidance on Canadian generally accepted accounting principles for situations where the PSA Handbook is silent. Under the GAAP hierarchy, reporting entities would therefore look to other sources for guidance. The sources may include international financial reporting standards (IFRS), international public sector accounting standards (IPSAS) or accounting standards for private enterprises (ASPE).

2 PS 3210 Assets, PS 3220 Contingent assets and PS 3280 Contractual rights apply to fiscal periods beginning on or after April 1, 2017. Early adoption is permitted.

3 PS 2200 Related party disclosures applies to fiscal years beginning on or after April 1, 2017. Early adoption is permitted.

4 PS 3420 Inter-entity transactions applies to fiscal years beginning on or after April 1, 2017. Early adoption is permitted.

5 PS 3430 Restructuring transactions applies to restructuring transactions occurring in fiscal years beginning on or after April 1, 2018. Early adoption is permitted.

OFFICE OF THE
Auditor General
of British Columbia

Location

623 Fort Street
Victoria, British Columbia
Canada V8W 1G1

Office Hours

Monday to Friday
8:30 am – 4:30 pm

Telephone: 250-419-6100
Toll free through Enquiry BC at: 1-800-663-7867
In Vancouver dial: 604-660-2421

Fax: 250-387-1230

Email: bcauditor@bcauditor.com

Website: www.bcauditor.com

This report and others are available at our website, which also contains further information about the Office.

Reproducing

OFFICE OF THE
Auditor General
of British Columbia