

## CONCEPTUAL FRAMEWORK FUNDAMENTALS AND THE REPORTING MODEL

Prepared by:

**Conceptual Framework Task Force**

March 2015

Comments are requested by August 31, 2015

The Conceptual Framework Task Force encourages  
you to respond sooner than August 31, 2015.

# Consultation Paper 3

*Consultation Paper 3 has been developed by the Public Sector Accounting Standards Board's (PSAB) Conceptual Framework Task Force. It seeks input from PSAB's stakeholders regarding:*

- A new reporting model to better reflect the accountability objective. The proposed reporting model contains significant changes to PSAB's existing reporting model. Consequently, it needs to be considered carefully.*
- Draft principles on public sector characteristics, financial reporting and financial statement objectives, qualitative characteristics, elements, recognition and measurement, as well as presentation and disclosure.*

## ***CONSULTATION PERIOD***

***March-August 2015***

### **Project objectives**

The objective of this project is to review and amend, if necessary, the concepts underlying financial performance in the public sector conceptual framework in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and FINANCIAL STATEMENT OBJECTIVES, Section PS 1100 and the reporting model in FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

The project applies to all levels of government as well as government components and organizations that apply the CPA Canada Public Sector Accounting (PSA) Handbook. The project and the conceptual framework focus only on general purpose financial statements.

### **Reasons for project**

A Joint Working Group comprised of selected PSAB members and Deputy Ministers of Finance was established to deal with various concerns expressed by the senior government finance community. A final subgroup report was issued suggesting PSAB review its conceptual framework.

In response, and in formulating its 2010–2013 Strategic Plan, PSAB initially planned its review in conjunction with the work being undertaken by the International Public Sector Accounting Standards Board (IPSASB). However, the senior government finance community expressed concern, indicating that PSAB should be proactive in developing a strong “made-in-Canada” solution. PSAB agreed to revise its 2010–2013 Strategic Plan accordingly, approved a revised project proposal and recruited a task force. In April 2011, the Conceptual Framework Task Force began its review of the conceptual framework focusing primarily on the concepts underlying financial performance for public sector entities.

**Where are we in the process?**

This Consultation Paper is the third document produced by the Task Force. This Consultation Paper, as with the others, represents the views of the Task Force. It is not a “due process” document which requires the approval by PSAB. Consultation Paper 3 highlights many of the principles that will be set out in a future statement of principles for a revised framework and reporting model, and asks for input on them and a proposed reporting model that is built on those principles.

The purpose of the August 2011 Consultation Paper 1, “[Characteristics of Public Sector Entities](#),” was to refine and better describe the characteristics of governments and other public sector entities with the intent that these characteristics would ground the concepts and principles in the PSA Handbook in the realities of the public sector environment.

The October 2012 Consultation Paper 2, “[Measuring Financial Performance in Public Sector Financial Statements](#),” articulates the objective of public sector financial reporting, the primary users of those reports, broad financial reporting accountabilities and more specific financial statement accountabilities. It also asked for stakeholders’ views on three possible reporting model approaches.

A summary of the feedback received from Consultation Papers 1 and 2 can be found on pages 8 and 9.

**What are the next steps?**

A statement of principles is planned to be issued for 2016. It will take into account input received from the three Consultation Papers and propose a revised conceptual framework and reporting model for public sector entities.

## **Introduction**

The Conceptual Framework Task Force has undertaken a comprehensive review of the concepts that underlie the reporting of financial performance in the general purpose financial statements of public sector entities. Many of its conclusions to date are set out as proposed principles and a proposed reporting model in this Consultation Paper for scrutiny and input by PSAB's stakeholders. Public accountability is the lens through which the proposals in Conceptual Framework Consultation Paper 3 were developed.

## **Highlights of proposals**

1. Revenues and expenses would be categorized in order to provide information about:
  - (a) the net result of services;
  - (b) the aspects of financial results that arise from transactions and events that would be either outside of operations or are not reasonably predictable.
2. New presentation concepts would be included to guide in the preparation of understandable financial statements to meet the accountability objective.
3. An asset and liability model would remain but definitions are proposed to exclude consideration of the expectation of providing future economic benefits to the entity or sacrificing economic resources to others.
4. The revenues and expense definitions include mention of the effect on net assets/liabilities.
5. The use of any attribute other than historical cost, justified at the standards level, would be required.
6. The statement of operations and remeasurement gains and losses would be combined.
7. Unrealized remeasurement gains and losses would be presented separately after net result of services.
8. The presentation of capital transfers would be amended:
  - (a) Specified capital transfers received for using tangible capital assets in the provision of services would be recognized in operating revenue as the liability for the use of the tangible capital asset is settled.
  - (b) Specified capital transfers received for the purpose of acquiring, constructing, developing or bettering a tangible capital asset would be recognized in revenue below net result of services when the liability is settled.
9. The service capacity concept and the reasoning for it will be better explained in the final framework.
10. An amended approved budget could be used by a public sector entity if the government has changed.

11. The flexibility that exists in the current requirements that allowed the actual to budget comparison to be provided in the notes and schedules if the budget reporting entity was different than the entity used for the financial statements would be eliminated.
12. If the reporting entity used for budget purposes is different from that used for financial statements, the statement of comprehensive financial results and change in net debt would provide a note on the face of the statements indicating and explaining why the actual to budget comparison could not be done for a comparable reporting entity.
13. The statement of cash flow would highlight cash available for/required from financing activities.

## **Your input is requested**

The Task Force needs your input on all aspects of Conceptual Framework Consultation Paper 3. This is the final Consultation Paper. Responses to this and the previous Consultation Papers will be carefully analyzed and debated in the development of a statement of principles, which is the next step in the project. You are urged to carefully consider the proposed concepts and their implications on the financial reporting model set out in this Consultation Paper.

Input from individuals, governments and their components and organizations is needed from those who agree with the proposals and from those who do not. The Task Force can form a balanced view of the appropriateness and acceptability of the proposals only if it hears from those who support and those who disagree with the proposals. All comments received will be available on the website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly in the response.

When the input is the collective view formed by a consultative process within an entity, please identify the groups consulted. When relevant, please identify individual views in the response. Such identification will provide context and promote a better understanding of how the proposals are affecting various aspects of a government, government component or government organization.

The Task Force is particularly interested in hearing views on specific questions. However, a response is only valuable if it is accompanied by the reasoning in support of the response. When possible, examples and illustrations should also be provided. When expressing disagreement, please clearly explain the problem and indicate a suggestion, supported by specific reasoning, for alternative wording.

Lastly, the Task Force realizes that it is asking many detailed questions. Given the nature and breadth of issues in the framework, your specific views on many aspects of the Consultation Paper are sought. These views are important input into the development of a statement of principles.

The specific questions being asked are embedded throughout this Consultation Paper in the appropriate places and summarized in Appendix A. Responses need to be supplemented with reasoning for the response and, when practical, illustrations or examples in support of the response.

<p><b>To be considered, comments must be received by August 31, 2015</b></p>	<ul style="list-style-type: none"> <li>• A new response form has been developed to assist PSAB’s stakeholders respond to the questions. Using the new response form instead of the traditional letter or response pdf form will improve comparability among the responses posted on the website and will assist in analyzing responses received. It is a new approach but we urge you to try it as it will positively affect the timeliness and efficiency of the analysis of input received. There is plenty of space for other comments in the new response form and your response can be saved and discussed or amended before submitting it. The questions can be accessed using this <a href="#">new response form link</a>.</li> <li>• Alternatively, you may send comments by email (in Word format to allow for analysis), to: <a href="mailto:ed.psector@cpacanada.ca">ed.psector@cpacanada.ca</a>. Responses sent in Word format should be addressed to: Tim Beauchamp, Director Public Sector Accounting, CPA Canada, 277 Wellington Street West, Toronto, ON M5V 3H2</li> <li>• A webinar outlining the proposals set out in this Consultation Paper will also be available on the website during the consultation period.</li> </ul>
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**Uses of the term “financial”:** Financial is used in two senses in the proposals:

- The term is used in front of “statements” and “results” and “position” as a way of identifying that these statements are reporting balances and activities in financial terms and in nominal Canadian dollar amounts (i.e., with no adjustments for the effects of changes in purchasing power).
- The term is also used in front of the word “resources” or “assets” and financial resources/assets are contrasted with “non-financial resources/assets” even though both types of economic resources/assets are reported in “financial” statements. When used in front of “resources/assets”, the term “financial” describes the more liquid nature of the benefits inherent in that type of economic resource/asset and their related flexibility in application. They are financial in the sense that they can normally be applied to settle liabilities or finance future service provision. The benefits inherent in non-financial resources/assets in contrast are more in the nature of service potential and thus can only be applied in future service provision, unless they are identified as for sale and reclassified as financial resources, or sold.

# Conceptual Framework Fundamentals and the Reporting Model

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# Background

## Feedback on previous Consultation Papers

General input received from PSAB's stakeholders on the first two Consultation Papers included the following:

- agreement that public sector entities exist to serve the public;
- positive acknowledgement of the proposed characteristics of public sector entities;
- recognition of the appropriateness of the focus on accountability for the public sector;
- support for the view that information prepared and provided for accountability purposes will also provide information that is useful for decision making;
- agreement that the focus of the project and the framework should be on financial statements; however, it is acknowledged that additional reporting beyond financial statements would be needed to meet the broad accountability objectives of public sector entities;
- an indication that MD&A/FSD&A<sup>1</sup>-type reporting needs to be increased in order to improve the understandability of public sector financial reporting;
- agreement that the public and their elected representatives are the primary users of public sector financial statements; and
- an indication that the proposed characteristics are more likely to be met by governments. Government components and organizations may only have some of these characteristics and may also have additional characteristics. A description of these entities should also be included in the characteristics section of the framework.

Key input received from PSAB's stakeholders on the reporting model alternatives in Consultation Paper 2 included the following:

- Out of the three reporting models provided (i.e., the asset and liability model, the revenue and expense model, and the hybrid model) the asset and liability reporting model was endorsed by a majority of respondents because of:
  - its link to real economic events;
  - its closeness to business reporting thus improving understandability by PSAB's stakeholders;

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<sup>1</sup> "MD&A" means Management Discussion and Analysis. It is a phrase commonly used to describe a type of required narrative reporting in the private sector. "FSD&A" means Financial Statement Discussion and Analysis, a public sector type of optional narrative reporting described in Public Sector Statement of Recommended Practice (SORP) 1, Financial Statement Discussion and Analysis.



- the strong base that it provides for developing sustainability reporting; and
- the fact that a case has not been made regarding the value added by moving to another model.

However, even some who indicated that they prefer an asset and liability reporting model noted that the asset and liability definitions should allow some deferral/matching, in particular, in relation to transfers received. It should also be noted that the responses at the provincial level were mixed in relation to the reporting model alternatives, while responses at the local and federal levels strongly supported an asset and liability reporting model.

- The current model is not a pure asset and liability model.
- The revenue and expense model was not endorsed by a majority of respondents for various reasons:
  - It is difficult to develop a solid, objective basis for deferring inflows and outflows to future periods.
  - The concept of inter-period equity is difficult to make operational. Only deferrals that meet the definitions of assets and liabilities should be allowed. Assets and liabilities are real economic phenomena. The public only understands real economic phenomena, not accounting creations like deferrals. The public has many assets and liabilities that are similar to those held by public sector entities and so can understand their nature.
- There was very little support for the hybrid model as it is too complex and would detract from the understandability of the financial statements.

### **Recommendations of the Joint Working Group**

Concerns raised by a Joint Working Group (JWG) comprised of selected PSAB members and deputy ministers of finance were one of the primary reasons that PSAB started its project to review the concepts underlying financial performance in its existing conceptual framework. A final subgroup report recommended that the conceptual framework would be stronger by including the following:

- a statement of the broad conceptually unique features of Canadian governments applicable to all aspects of the standard setting process, in addition to the existing references to uniqueness for reporting purposes;
- a clear definition of government as a socio-economic entity separate from the individuals elected to govern the jurisdiction, which will identify the government as an entity that exists independently and indefinitely;
- a definition of the primary users of the summary financial statements as the public and the legislature acting on their behalf;
- recognition that accounting standards must respond to the information needs of the primary users; and
- a balanced perspective on the importance of the various summary financial statement components required by the standards.

The report also recommended:

- Expansion of the description/definition of liabilities will provide consistency and clarity of presentation of liabilities that are associated with non-exchange transactions, one of the basic unique features of government. In addition, expansion of the description/definition of liabilities will address liabilities associated with exchange transactions that originate from deferred income which are not currently addressed in the PSA Handbook. Alternatively, if these changes cannot be accommodated, new financial statement elements for deferred inflows and outflows (i.e., deferred revenue/expense) should be considered without recording the deferral directly to accumulated surplus/deficit as a means to avoid impacting the statement of operations.
- That the conceptual framework should continue to require that government financial statements are prepared primarily using the historical cost basis of measurement, while recognizing that other bases of measurement are also used, but only in limited circumstances. The conceptual framework would be further strengthened by a requirement to clearly state in any standard (including exposure drafts or other papers for comment) when a departure from this basis of measurement is contemplated, together with clear justification for the departure.

It should be noted that subsequent to the release of the JWG report, standards have been issued about the application of the definition of liability in respect to government transfers.

The Task Force has ensured that the proposals developed to date have considered all of the feedback received as well as the recommendations of the JWG.

## Highlights of the fundamentals of the conceptual framework

Below are the highlights of the fundamentals of the conceptual framework, which include the principles that underlie the proposed new reporting model.

**NOTE:** An introduction to the conceptual framework would be provided in a proposed new Section.

### Characteristics of public sector entities (proposed new Section)

1. Public sector entities exist to serve the public. This mandate is the filter through which key characteristics of public sector entities are differentiated from less relevant attributes.
2. The characteristics are:
  - (a) public accountability (including the power to tax, other powers, rights and responsibilities, the importance of the budget, operating and financial frameworks set out in legislation, and debt capacity);
  - (b) multiple public interest objectives (including service provision, resource reallocation, long term stewardship, and peace, order and good government);
  - (c) governance structures (including political dimension to governance, lack of or minimal equity ownership, monopolistic environment, and the Constitutional structure of Canada);
  - (d) the nature of resources; and
  - (e) the significance and volume of non-exchange transactions.
3. Information about the characteristics of government components and government organizations will also be provided.

**Major change proposed in comparison to the existing framework:** The framework would provide a more complete description of the public sector environment than is accomplished in the existing table of characteristics in Appendix A of FINANCIAL STATEMENT OBJECTIVES, Section PS 1100. Appendix A would be replaced by a proposed new Section.

**Implication of the change:** A fuller description of the public sector environment will be a touchstone for standard setting. The characteristics have been considered in developing financial statement objectives and the related proposed reporting model. Identification of these characteristics should result in standards that are more tailored to the public sector.

### Users and broad objectives of financial reporting (proposed new Section)

4. The primary users of public sector financial reports are the public and their elected representatives.
5. The objective of financial reporting by a public sector entity is to provide information for accountability purposes.
6. The broad financial accountabilities expected to be met by the financial reports of public sector entities are:
  - (a) the extent to which the entity performed in accordance to plan;
  - (b) the state of the financial condition of the entity; and
  - (c) the comprehensive financial performance of the entity.

**Major changes proposed in comparison to the existing framework:** There would be an increased emphasis on accountability as the primary objective of public sector financial reporting. The public and its elected representatives would be emphasized as the primary users of public sector financial reports in comparison to the existing longer list of users. Broad accountabilities for all financial reporting of a public sector entity would be identified and would set the stage for the more specific financial statement objectives.

**Implications of the changes:** The accountability objective will have particular effect in the development of the qualitative characteristics, the financial statement indicators and the presentation concepts, all of which would emphasize understandability, reduction of complexity, highlighting of important matters and providing a cohesive, explainable picture of a public sector entity's finances. Thus, the change should have the effect of increasing the accountability value of public sector financial statements, better serving the public interest.

### Financial statement foundations and objectives (proposed new Section)

#### Financial statement foundations

7. Service capacity concept – Public sector entities that apply the PSA Handbook, generally exist to provide services. Measuring service capacity is the basis for assessing financial performance. Service capacity is generally the difference between the value of the assets and liabilities of the entity; it is not limited to the non-financial assets of the entity. Capacity is viewed as a financial phenomenon in the sense that it expresses capacity in monetary terms without any consideration of the productivity of the capacity. The service capacity concept illustrates whether capacity has increased or decreased. Text will be proposed to explain the thinking behind the concept, defined as the capacity to provide services, settle liabilities and finance future services.
8. Unit of measure concept – Public sector financial statements are measured in Canadian dollars with no adjustments made for the effect of a change in the general purchasing power of the currency during the period.

9. Public sector financial statements are prepared using the accrual basis of accounting. The accrual basis of accounting recognizes the effect of transactions and other events in the period in which the transactions and other events occur, regardless of whether there has been a receipt or payment of cash or its equivalent. Accrual accounting recognizes an economic obligation until the term(s) or condition(s) underlying it are partly or wholly satisfied. Accrual accounting recognizes an economic resource until the future service potential or future net cash flows underlying the resource are partly or wholly used or lost.
10. The boundaries of the economic entity being reported on – Accountability can only be served when a complete picture of the entity that is reporting is provided. Financial statements are prepared to report on the finances of an identifiable economic reporting entity, which includes components and organizations controlled by the entity reporting.

**Major changes proposed in comparison to the existing framework:** The foundations would be better explained; in particular, the reasoning for the service capacity concept and the options considered.

**Implications of the changes:** There are no implications to highlight.

#### **Financial statement objectives**

11. The paper proposes five high-level objectives of financial statements. Financial statements should:
  - (a) provide an accounting of the full nature and extent of the resources and financial affairs for which a public sector entity is accountable, including those related to the activities of its components and organizations;
  - (b) present information to describe a public sector entity's financial position at the end of the accounting period; such information should be useful in evaluating the entity's accountability for its financial position, including:
    - (i) the entity's ability to finance its activities and to meet its obligations;
    - (ii) the entity's ability to provide future services; and
    - (iii) the entity's service capacity and changes to that service capacity;
  - (c) present information to describe the changes in a public sector entity's ability to finance its activities, meet its obligations and provide future services in the accounting period; such information should be useful in evaluating:
    - (i) the sources, allocation and consumption of the entity's economic resources in the accounting period;
    - (ii) the relationship between the use of economic resources to provide services in the period and the inflows of economic resources in the period;

- (iii) the extent to which the results of the period can be attributed to operating activities as contrasted with the effects of unusual events, revaluations or other volatile events;
  - (iv) how the activities of the accounting period have affected the net financial resources/obligations of the entity; and
  - (v) how the entity financed its activities in the accounting period and how it met its cash requirements;
- (d) provide information useful in demonstrating a public sector entity's accountability for the financial affairs and resources for which it is responsible in terms of:
- (i) whether they were administered by the entity in accordance with the limits established by the appropriate legislative authorities; and
  - (ii) how the actual financial performance of the entity in the management of its financial affairs and resources in the accounting period compares to that projected in its fiscal plan; and
- (e) provide information to describe the significant financial risks to which the public sector entity is exposed. Such information would be useful in evaluating the nature and extent of these risks and the entity's accountability for the management of these risks.

Note: At the standards level, objective (a) is dealt with in the requirements of GOVERNMENT REPORTING ENTITY, Section PS 1300. The remaining objectives would be taken into account in the requirements of a revised FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

**Major changes proposed in comparison to the existing framework:** There would be three changes in the financial statement objectives from those set out in existing FINANCIAL STATEMENT OBJECTIVES, Section PS 1100;

- (a) the addition of a new objective that would require a description of the significant financial risks to which an entity is exposed;
- (b) the addition of a requirement to provide information about the relationship between the decreases of economic resources to provide services in the period and the increases of economic resources in the period, which would translate into a financial reporting requirement for a net result of services subtotal on the statement of comprehensive financial results; and
- (c) the addition of a requirement to provide information about the extent to which the results of the period can be attributed to operating activities as contrasted with the effects of unusual events, revaluations or other volatile events. This change would require the separate reporting of volatile items identified by PSAB from the newly proposed net result of services indicator.

Changes to the reporting model based on these objectives are also proposed. Please see the main body of this paper, which illustrates the proposed new reporting model. The proposed reporting model uses a presentation solution to highlight the net result of services and requires separate reporting of the major items identified as creating volatility in periodic financial results.

**Implications of the changes:** The additional objective regarding risk disclosures responds to those significant financial risks existing in the economic environment in which public sector entities operate. It was concluded that financial statements that are comprehensive and respond to the accountability objective demand reporting of the significant financial risks to which an entity is exposed. The Task Force does not anticipate new reporting requirements as a result of this additional objective, as reporting on significant financial risks is already a requirement in the existing standards (for example, in FINANCIAL INSTRUMENTS, Section PS 3450). The emphasis on the relationship between the decrease of economic resources to provide services in the period and the increase of economic resources in the period responds to input received on Consultation Paper 2 regarding the need to highlight the net result of services. The implications of the proposals on the reporting model are discussed later in this Consultation Paper.

**Question 1:** Do you agree with the service capacity concept, as described in paragraph 7?

**Question 2:** The Task Force is proposing five high-level objectives of financial statements.

- (a) Do you agree with the objective of accounting for the full nature and extent of the resources and financial affairs for which a public sector entity is accountable, as described in paragraph 11(a)?
- (b) Do you agree with the objective of presenting information to describe a public sector entity's financial position at the end of the accounting period, as described in paragraph 11(b)?
- (c) Do you agree with the objective of presenting information to describe the changes in a public sector entity's ability to finance its activities, meet its obligations and provide future services in the accounting period, as described in paragraph 11(c)?
- (d) Do you agree with the objective of providing information that is useful in demonstrating a public sector entity's accountability for the financial affairs and resources for which it is responsible, as described in paragraph 11(d)?
- (e) Do you agree with the objective of providing information to describe the significant financial risks to which a public sector entity is exposed, as described in paragraph 11(e)?

### Qualitative characteristics (proposed new Section)

12. The qualitative characteristics of information to be reported in public sector financial statements are:

- (a) relevance (consisting of confirmatory and predictive value and timeliness);
- (b) faithful representation (consisting of completeness, neutrality, freedom from material error and substance over form);
- (c) verifiability;
- (d) comparability; and

(e) understandability (reduction of complexity).

13. Considerations in applying the qualitative characteristics are: benefits versus costs and materiality.

**Major changes proposed in comparison to the existing framework:**

- Faithful representation would replace reliability as a characteristic. Representational faithfulness is currently identified as a quality of reliability. The main reason for the proposal is that there has been some confusion distinguishing between reliability and verifiability, so it makes sense to more clearly differentiate the intended nature of the characteristics. In proposing the change to faithful representation, it was concluded that it is important to ensure that the concept is clear and distinguishable from other characteristics and that faithful representation provided a better description of the intent of the characteristic than did reliability.
- Because of the proposed accountability objective, an understandability imperative is also proposed. The idea is that accountability cannot be achieved unless the information provided for accountability purposes can be understood.
- Conservatism is removed as an explicit concept but would still play a role in cases of estimation when there is uncertainty and there is a choice between equally possible amounts. In such cases, conservatism would require that there be no deliberate understatement of liabilities or overstatement of assets.
- Materiality is proposed to be added to the benefit/cost comparison as a consideration in applying the qualitative characteristics.

**Implications of the changes:** The qualitative characteristics would be clarified so that their intent is more transparent and they would be better oriented to the accountability needs of public sector users. The considerations are aimed at ensuring that the practical realities are considered in applying the qualitative characteristics.

**Question 3:** Do you agree with the proposed change to the qualitative characteristics of replacing reliability with faithful representation?

**Question 4:** Do you agree that benefits versus costs and materiality should be considerations in applying the qualitative characteristics, as indicated in paragraph 13?

**Elements of financial statements (proposed new Section)**

14. The elements of financial statements are limited to economic phenomena and changes in them. Identifiable economic phenomena make sense to the public and their elected representatives as they have them too in their own finances (for example houses, mortgages and investments).

15. The elements of financial statements are: assets, liabilities, revenues and expenses.



16. Asset definition – An asset is a present economic resource controlled by an entity as a result of past events that is capable of providing future economic benefits.
17. Liability definition – A liability is a present economic obligation of an entity to others as a result of past events that can result in a future sacrifice of economic resources.
18. Revenues definition – Revenues, including gains, are increases in assets or decreases in liabilities in the accounting period that result in an increase in net assets/liabilities.
19. Expenses definition – Expenses, including losses, are decreases in assets or increases in liabilities in the accounting period that result in a decrease in net assets/liabilities.

**Major changes proposed in comparison to the existing framework:**

- The asset and liability definitions are proposed to exclude consideration of the expectation of providing future economic benefits to the entity or sacrificing economic resources to others in determining what is an asset or liability. These exclusions would eliminate an existing redundancy between the element definitions and the general recognition criteria. Only the general recognition criteria will consider the expectation of providing future economic benefits or sacrificing economic resources in determining what can be recognized in public sector financial statements.
- The revenues and expenses definitions are proposed to include mention of the effect on net assets/liabilities. Previously, this effect was only recognized in the accompanying guidance, not the definitions; it was concluded that the definitions should stand on their own.

**Implications of the changes:** Asset and liability definitions would be clearer as they would be focused on the nature and substance of these economic phenomena. They would no longer overlap with the general recognition criteria. The general recognition criteria will now act as the boundaries as to which assets, liabilities, revenues and expenses get recognized in public sector financial statements. There would be no change in what would actually be recognized in the financial statements as there was always redundancy between the asset and liability definitions and the general recognition criteria.

**Question 5:** Do you agree that the elements of financial statements should be limited to economic phenomena and changes in them, as stated in paragraph 14?

**Question 6:** Do you agree that the elements of financial statements should be assets, liabilities, revenues and expenses, as stated in paragraph 15?

**Question 7:** Do you agree with the asset definition, as presented in paragraph 16?

**Question 8:** Do you agree with the liability definition, as presented in paragraph 17?

**Question 9:** Do you agree with the revenues definition, as presented in paragraph 18?

**Question 10:** Do you agree with the expenses definition, as presented in paragraph 19?

### Recognition and measurement (proposed new Section)

20. The general recognition criteria are not proposed to be changed. Once it is determined that an item meets the definition of an element, the general recognition criteria would continue to require that the inflow of future economic benefits or outflow of economic resources associated with the item be expected to be realized and that the item can be measured in order for the item to be recognized in financial statements.
21. Derecognition principles are not proposed for inclusion in the framework. These will be considered at the individual standards level.
22. The purpose of financial statements is to demonstrate accountability for the net resources available for service capacity and changes to those resources. Measurement requirements are set out in individual standards. Primarily, historical cost reflects accountability for past performance. Use of any attribute other than historical cost would be justified at the standards level. In the absence of specific guidance, professional judgment is needed to determine the most appropriate measurement attribute given the objectives of financial statements. In public sector financial statements, assets, liabilities, transactions and events are initially recognized at cost, or the amount of cash or cash equivalents paid or received or the fair value ascribed to them. Subsequent to initial recognition, there are circumstances where, for example, a historical cost or fair value attribute is most appropriate for measuring service capacity.

**Major changes proposed in comparison to the existing framework:** The inclusion of more explanatory information and a requirement that the use of any attribute other than historical cost be justified at the standards level are the main changes proposed.

**Implications of the changes:** The general recognition criteria will now act as the boundaries as to which assets, liabilities, revenues and expenses get recognized in public sector financial statements.

**Question 11:** Do you agree that the general recognition criteria should not change, as indicated in paragraph 20?

**Question 12:** Do you agree that derecognition principles should not be included in the conceptual framework, as indicated in paragraph 21?

**Question 13:** Do you agree with the measurement attribute, as described in paragraph 22?

**Presentation concepts (proposed new Section)**

23. The conceptual presentation objective is to present information in the financial statements in a manner that maximizes the accountability value of the financial statements to the public and its elected representatives, and portrays a cohesive financial picture of the activities of a public sector entity. Presentation includes disclosure.
24. The PSA Handbook represents the requirements for all public sector entities that prepare general purpose financial statements. GAAP represents the core accountabilities required of public sector entities that apply the PSA Handbook by the public and their elected representatives. Public sector entities may provide additional presentation and disclosure in the financial statements as long as such information:
  - (a) does not conflict with the core requirements;
  - (b) does not confuse, hide or change the meaning of the information included in the financial statements;
  - (c) is consistent with the conceptual framework; and
  - (d) increases the accountability value of the resulting financial statements.
25. Information, including note disclosures, presented in financial statements should:
  - (a) provide a cohesive, comprehensive, understandable picture of the financial results and financial position of the entity;
  - (b) provide information at the level of detail appropriate to financial statements;
  - (c) increase the accountability value of the financial statements;
  - (d) prioritize and give higher profile in disclosures to matters of importance that have occurred in the period; and
  - (e) be entity- and period-specific, rather than boilerplate presentations.
26. No one financial statement is more important than any other financial statement. Each financial statement has its own purpose. Notes and schedules have the same significance as information or explanations set forth in the body of the statements themselves. However, disclosure in the notes and schedules to the financial statements should not be used as a substitute for the proper recognition of a transaction.
27. Financial statements should present:
  - (a) the substance of transactions and other events;

- (b) information required for the fair presentation of a public sector entity's periodic financial results and financial position;
- (c) information in an understandable manner; and
- (d) information stated as simply as possible while still meeting the qualitative characteristics and the accountability objective.

28. Presentation and disclosure choices should be made within the context of whether they add to the accountability value provided by the set of financial statements. A public sector entity should consider:

- (a) the appropriateness of aggregation/grouping/consolidation of like items for reporting or disclosure purposes and whether such an approach contributes to the understandability of the entity's finances;
- (b) the complexity, uncertainty and risk in identifying the appropriate presentation and disclosure of items, transactions and other events with the emphasis on providing understandable information;
- (c) the timing and frequency of preparation and issuance of financial statements to ensure that information presented in financial statements is meaningful and relevant to users; and
- (d) the need for, nature, extent, organization, value and understandability of all disclosures in the notes and schedules at each reporting date.

**Major changes proposed in comparison to the existing framework:**

- Some presentation principles that are more conceptual in nature would be moved from existing FINANCIAL STATEMENT PRESENTATION, Section PS 1201, to this proposed new Section. Examples include:
  - the requirement to present substance over form;
  - the prohibition against using notes as a substitute for the proper recognition of a transaction;
  - reporting/disclosing information at the level of detail appropriate to financial statements; and
  - the requirement to report or disclose any information needed for the fair presentation of an entity's financial results and position.
- New presentation concepts would be included to guide in the preparation of understandable financial statements to meet the accountability objective. Examples include the requirement(s):
  - for all presentation and related disclosures to provide a cohesive and understandable picture of an entity's finances;
  - to present information as simply as possible to meet the other requirements;

- to prioritize matters of importance and use appropriate disclosures for the entity; and
- to review the financial statement package at each reporting date to ensure that it remains relevant cohesive, comprehensive and understandable.

**Implications of the changes:** The proposed changes are intended to help explain and operationalize what the accountability objective means for users of the PSA Handbook. They may also help in developing presentation and disclosure requirements at the standards level. Some entities likely already apply principles like those proposed in preparing their financial statements; others may need to institute new practices to ensure that the financial statements are understandable to the public and its elected representatives.

**Question 14:** Do you agree with the conceptual presentation objective, as described in paragraph 23?

**Question 15:** Do you agree with the restrictions on information provided supplemental to the core requirements, as listed in paragraph 24?

**Question 16:** Do you agree with the parameters to be considered in determining what information to include in financial statements, as listed in paragraph 25?

**Question 17:** Do you agree with the relative equality of the individual financial statements and the notes to the financial statements in meeting the accountability objective, as described in paragraph 26?

**Question 18:** Do you agree with the basic principles relating to what information financial statements should present, as listed in paragraph 27?

**Question 19:** Do you agree with the considerations for evaluating presentation and disclosure choices, as listed in paragraph 28?

## Features of and basis for reporting model proposals

The Task Force is proposing changes to the core requirements for the public sector financial reporting model. The majority of the proposed changes relate to presentation on the statement of financial performance.

The Task Force has considered the comments received on [Consultation Paper 2](#), the majority of which supported retaining an approach that uses the rigour of asset and liability definitions and changes in assets and liabilities as parameters for calculating financial performance. Thus, the proposed approach balances technical consistency and supportability with changes in how financial performance is presented in order to better explain the dimensions of the financial performance of a public sector entity.

Consultation Paper 3 elaborates on the details of the proposed reporting model highlighting where changes are proposed and their implications. Illustrative financial statements show the features of the proposed reporting model.

FEATURES AND CHANGES	BENEFITS/IMPLICATIONS
<p><b>Proposed reporting model would require changes in presentation but not in recognition or measurement</b></p>	<p>Recognition and measurement issues are examined at the standards level, given the uniqueness of each standard.</p>
<p><b>Number of financial statements reduced to four</b></p> <ul style="list-style-type: none"> <li>The proposed reporting model would require the preparation of four financial statements: a statement of financial position, a statement of comprehensive financial results, a statement of change in net debt and a statement of cash flow.</li> </ul>	<ul style="list-style-type: none"> <li>Fewer statements should reduce complexity for users and improve understandability.</li> <li>There would be fewer reconciliations for users to follow in reading the statements.</li> </ul>
<p><b>Single periodic financial results statement</b></p> <ul style="list-style-type: none"> <li>Two existing financial results statements would be combined into one (statements of operations and remeasurement gains and losses).</li> <li>Operating results (which would be referred to as net result of services in the proposed reporting model) and unrealized remeasurement gains and losses would be shown on a single financial results statement.</li> </ul>	<ul style="list-style-type: none"> <li>One financial results statement means that users would see in one place whether the entity is better or worse off on an overall basis from the activities of the period, but would also be able to evaluate accountability for other aspects of periodic financial performance such as the net result of services and the items affecting volatility of results.</li> <li>Only the items identified by PSAB would be reported separately from net result of services.</li> </ul>
<p><b>Question 20:</b> Do you agree with combining the statement of operations with the statement of remeasurement gains and losses to make a single periodic financial results statement?</p>	

FEATURES AND CHANGES	BENEFITS/IMPLICATIONS
<p><b>Proposed statement of comprehensive financial results would present a more nuanced and understandable results story for the period; its focus is not on a single number</b></p> <ul style="list-style-type: none"> <li>• “Total revenues less total expenses” would continue to be how the measure of comprehensive financial results for the period is calculated. This difference would continue to represent the change in net assets/liabilities.</li> <li>• However, revenues and expenses would also be categorized on the proposed statement of comprehensive financial results in order to provide information about: <ul style="list-style-type: none"> <li>○ the net result of services (indicates the extent to which operating revenues were sufficient to cover operating expenses); and</li> <li>○ the aspects of financial results that arise from transactions and events that would be either outside of operations or not reasonably predictable.</li> </ul> </li> <li>• Exclusion of unrealized remeasurements from net result of services would continue under the proposed reporting model. This approach is consistent with an accountability objective, which emphasizes accountability for operating performance, highlighting volatile amounts because of the greater uncertainty associated with them. The proposed separate reporting of unrealized remeasurements on the statement of comprehensive financial results highlights them for explanation.</li> <li>• The proposed statement of comprehensive financial results would allow separate reporting of items that are generally not possible to budget for, such as natural disasters and other unusual events.</li> <li>• Guidance will be provided for those items that should be isolated from net result of services, with the expectation that the guidance would include the requirement to properly disclose the rationale for the exclusion.</li> </ul>	<ul style="list-style-type: none"> <li>• Subtotals on the statement of comprehensive financial results would help to better communicate and explain financial results and thus provide better accountability information.</li> <li>• The format would better respond to users’ needs. Users are interested in the net result of services indicator because services are what they expect to receive from the public sector. The public want to understand the extent to which public resources have been used to provide services in the period.</li> <li>• Separately reporting unrealized remeasurements or unusual items allows the entity to explain them to the public. Therefore, the approach should improve the understandability of reported results. This approach would also be more aligned with how public sector entities, particularly governments, budget and manage programs.</li> <li>• This approach continues the existing practice of reporting cost of service information in a manner that facilitates linkage of summary costs to underlying costs for the costing and management of individual programs/services.</li> <li>• Even with subtotals on the statement of comprehensive financial results, the statement would still highlight on an overall basis whether total revenues were sufficient to cover total expenses of the period.</li> <li>• The proposals recognize the reality that it may not be possible to budget for some aspects of financial results, such as unrealized valuation changes and unusual items such as natural disasters. These would be required to be reported separately. Nevertheless, the separate reporting of these</li> </ul>

FEATURES AND CHANGES	BENEFITS/IMPLICATIONS
	<p>aspects of financial results for the accounting period would allow for explanation of the actual financial effects of these items and any related budget variances.</p>
<p><b>Question 21:</b> Do you agree with the proposed statement of comprehensive financial results?</p> <p><b>Question 22:</b> Do you agree with the segregation of “unusual items” from net result of services? If so, in developing a definition or guidance for “unusual items”, what would the definition or guidance be?</p>	
<p><b>Unrealized remeasurement gains and losses would not be presented as part of net result of services</b></p> <ul style="list-style-type: none"> <li>• Currently, unrealized remeasurement gains and losses are required to be presented in the statement of change in net debt/net financial assets and, thus, are excluded from the operating surplus/deficit.</li> <li>• In the proposed reporting model, unrealized remeasurement gains and losses would be presented separately after net result of services.</li> </ul>	<ul style="list-style-type: none"> <li>• The approach would support the provision of transparent accountability information about significant financial risks taken on by an entity and the effectiveness of its risk management.</li> <li>• The proposed approach would not change the existing financial instrument or foreign currency translation standards except to the extent that unrealized remeasurements are presented on the single comprehensive financial results statement rather than reported on a separate statement.</li> </ul>
<p><b>Question 23:</b> Do you agree that unrealized remeasurement gains and losses should be presented separately from net result of services?</p>	
<p><b>New rules on the presentation of capital transfers received</b></p> <ul style="list-style-type: none"> <li>• Capital transfers received that are stipulated to be used for buying or building a tangible capital asset would be recognized in revenue as the related asset is bought or built and would be reported below the net result of services line.</li> <li>• Capital transfers received for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years would be recognized in operating revenue as the liability is settled, in accordance with GOVERNMENT TRANSFERS, Section PS 3410.</li> </ul>	<ul style="list-style-type: none"> <li>• Net result of services would not be distorted by capital transfers that are to be used to buy or build a tangible capital asset.</li> <li>• The difference in how these two types of capital transfers are reported on the statement of comprehensive financial results would be set out as a consequential amendment to GOVERNMENT TRANSFERS, Section PS 3410.</li> </ul>
<p><b>Question 24:</b> Do you agree with the proposed presentation for capital transfers received (i.e., capital transfers stipulated to be used for buying or building a tangible capital asset are to be reported below net result of services and capital transfers that are related to the use of the tangible capital asset would be recognized in operating revenue as the liability is settled)?</p>	



FEATURES AND CHANGES	BENEFITS/IMPLICATIONS
<p><b>Only real economic phenomena and changes in them would be reported</b></p> <p>Only the substance of economic phenomena (resources and obligations) and changes in them would be recognized in public sector financial statements.</p>	<ul style="list-style-type: none"> <li>From an understandability perspective, individuals look at their own finances in terms of economic resources (such as houses) and obligations (such as mortgages, credit cards); so the proposed approach would be more familiar to them and thus, more explainable than one that incorporates accounting deferrals.</li> <li>This is the same as the current approach in the PSA Handbook.</li> </ul>
<p><b>Proposed approach would set consistent, theoretically supportable boundaries around the items that can be included in periodic financial results</b></p> <ul style="list-style-type: none"> <li>Financial results would only arise from changes in assets and liabilities, and thus, provide rigour for evaluating items being considered for recognition, and consistency in application.</li> <li>Asset and liability definitions would provide the rigour that establishes boundaries around what can be included in financial results and when.</li> <li>However, this rigour in what can be included in financial results, and when, would be accompanied by a presentation solution that isolates volatile items from net result of services. Revenues and expenses would be categorized to allow for the calculation of explainable measures that highlight the important financial results dimensions of a public sector entity.</li> </ul>	<ul style="list-style-type: none"> <li>Measuring comprehensive financial results as the change in net assets/liabilities would provide an anchor to resolving difficult accounting questions and sound financial reporting.</li> <li>By ensuring that items that do not meet the definitions of assets and liabilities are not recognized on the statement of financial position, this approach would also ensure that only changes in economic phenomena flow through to the statement of comprehensive financial results.</li> <li>Historical experience suggests that this approach most appropriately anchors the standard-setting process and adds to the credibility of financial reporting by providing the strongest conceptual mapping to the underlying economic reality.</li> </ul>
<p><b>Highlighting cash available for/required from financing activities on the statement of cash flow</b></p> <ul style="list-style-type: none"> <li>A subtotal of cash (requirements)/available would be calculated before reporting financing transactions.</li> </ul>	<ul style="list-style-type: none"> <li>This format would allow the amount of cash required from or available for financing activities to be highlighted and, thus, may be more explainable to users.</li> </ul>
<p><b>Question 25:</b> Do you agree with the proposed change made to the statement of cash flow to calculate the subtotal of cash requirements/available before financing transactions?</p>	

FEATURES AND CHANGES	BENEFITS/IMPLICATIONS
<p><b>The rules regarding the budget numbers to be included in financial statements for purposes of comparing actual to budgeted results are proposed to be tightened in order to emphasize this important part of the accountability cycle.</b></p> <ul style="list-style-type: none"> <li>• Guidance will encourage the approved original budget to be on the same accounting basis, for the same entity and to use the same classifications as the financial statements.</li> <li>• At a minimum, a projected statement of comprehensive financial results would be approved as part of the original budget.</li> <li>• Some additional flexibility would be allowed in terms of the budget numbers used for comparison. An amended approved budget is allowed to be used by a public sector entity if the government has changed. An amended budget is differentiated from forecasts updated over the course of the year.</li> <li>• If the budget accounting basis or classification is different than that used in the financial statements, the budget numbers would be restated for purposes of the actual to budget comparison using the financial statement accounting basis and classification. The restatement reconciling back to the numbers in the original approved budget would be disclosed and explained in a note or schedule.</li> <li>• If the reporting entity used for budget purposes is different than that used for financial statements, the statements of comprehensive financial results and change in net debt would provide a note on the face of the statements indicating and explaining why the actual to budget comparison could not be done for a comparable reporting entity.</li> </ul>	<ul style="list-style-type: none"> <li>• The actual to budget comparison in the financial statements would only be provided on the face of the financial statements and not in the notes and schedules to the financial statements. Therefore, it should receive a higher profile.</li> <li>• The resulting accountability information would be more understandable and more clearly link to the fiscal plan.</li> <li>• Reconciliations would be minimized.</li> <li>• The flexibility that exists in the current requirements that allowed the actual to budget comparison to be provided in the notes and schedules if the budget reporting entity was different than the entity used for the financial statements would be eliminated. This flexibility allowed the comparison to be done only for the entity used in the budget. Thus, the actual numbers from the financial statements had to be adjusted and reported in the comparison only for those entities in the budgeted reporting entity.</li> <li>• This proposal would encourage the use of the same reporting entity for financial statements and budgets.</li> <li>• In essence, these proposals encourage budgets to be prepared on an accrual basis for the reporting entity and all entities controlled by a public sector entity.</li> <li>• Accountability is strengthened when actual to budget comparisons are prepared on the same accounting and classification basis and for the same reporting entity.</li> </ul>
<p><b>Question 26:</b> Do you agree with the budget proposals?</p> <p><b>Question 27:</b> Are there situations, other than a change in government that would support the use of an amended budget?</p>	

FEATURES AND CHANGES	BENEFITS/IMPLICATIONS
<p><b>Emphasis is on more than a single indicator of results</b></p> <ul style="list-style-type: none"> <li>• The current reporting model reports more than one financial results number. But the emphasis of discussion is usually on the annual surplus/deficit from operations.</li> <li>• Net result of services and comprehensive financial results would be indicators on the statement of comprehensive financial results.</li> <li>• The statement of cash flow would highlight cash available for/required from financing activities.</li> <li>• There would be increased emphasis on the budget to actual comparison.</li> </ul>	<ul style="list-style-type: none"> <li>• A single financial results number for a public sector entity may be misleading if it is not put in context. The indicators proposed for the new financial results statement provide some context and allow for a more comprehensive picture of financial results to be presented in one place and explained.</li> <li>• The dimensions of financial results set out in the statement of cash flow provide further useful performance information for accountability purposes that is isolated for explanation.</li> <li>• The budget to actual comparison is an important aspect of variance reporting to further demonstrate accountability.</li> </ul>
<p><b>Question 28:</b> The Task Force has not identified annual surplus/deficit as an indicator. Should annual surplus/deficit be an indicator in the proposed statement of comprehensive financial results? If yes, how should it be defined?</p>	

# Illustrative financial statements

## Statement of Comprehensive Financial Results

Year ended March 31 (\$ thousands)

	Budget <sup>7</sup> 20X3	Actual 20X3	Note	Actual 20X2
<b>Operating revenues</b>				
Income or property taxes	8,034	8,628		9,503
Other taxes	2,721	2,976		3,083
Non-renewable resource revenue	660	770		705
Operating transfers	810	840	1	783
Transfers for usage of tangible capital assets	130	130	1	120
Miscellaneous revenues	427	485		465
Net income from government business enterprises	50	525		97
Net investment income (realized)	409	610	3	747
Premiums, permits, fees, fines and licences	581	651		669
Other	100	342		402
	13,922	15,957		16,574
<b>Operating expenses by function</b>				
Health	4,541	4,626	2	4,457
Education	4,329	4,287	2	4,168
Social services	1,654	1,701	2	1,709
Transportation and utilities	626	823	2	807
Agriculture, environment and development	1,706	1,856	2	1,740
Justice	468	487	2	462
Recreation and culture	281	272	2	217
General government	551	627	2	560
Debt servicing costs	93	267	2	183
	14,249	14,946		14,303
<b>Net result of services/programs</b>	(327)	1,011	6	2,271
Transfers for acquisition of tangible capital assets	355	365	1	280
+/- Unusual items	0	(1,000)	5	0
Unrealized remeasurement gains (losses)	0	169	3	(47)
<b>Comprehensive financial results</b>	28	545		2,504
<b>Net assets/(liabilities) at beginning of year</b>	(1,413)	(1,413)	8	(3,917)
<b>Net assets/(liabilities) at end of year</b>	(1,385)	(868)	8	(1,413)

Additional subtotals within the net result of services area are possible. However, public sector entities would need to consider whether further subtotals would improve accountability or impair understandability.

Items identified by PSAB are isolated here.

**Question 29:** On the statement of comprehensive financial results are there better labels for the indicators (i.e., net result of services) or the statement, which would be more informative or would provide increased understandability? If so, what would they be?

## Statement of Financial Position

As at March 31 (\$ thousands)

	Actual 20X3	Note	Actual 20X2
<b>Financial assets</b>			
Cash and cash equivalents	577		1,366
Accounts and accrued interest receivable	1,864		1,708
Portfolio investments	2,254		1,331
Derivatives	35		0
Equity in commercial enterprises	331		207
Loans	4,909		5,659
Inventories for resale	109		135
	<u>10,079</u>		<u>10,406</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	2,383		2,644
Derivatives	10		105
Debt	9,398		9,796
Pension liabilities	4,813		4,890
Other accrued liabilities	1,395		1,510
Unearned revenue	308	9	331
	<u>18,307</u>		<u>19,276</u>
<b>Net financial assets/(net debt)</b>	<u>(8,228)</u>	<b>8</b>	<u>(8,870)</u>
<b>Non-financial assets</b>			
Tangible capital resources available	14,659		14,430
Less: Accumulated use of tangible capital resources	(7,441)		(7,215)
Tangible capital resources, net	<u>7,218</u>		<u>7,215</u>
Inventories of supplies and prepaid expenses	142		242
	<u>7,360</u>	<b>8</b>	<u>7,457</u>
<b>Net assets/(liabilities)</b>	<u>(868)</u>	<b>8</b>	<u>(1,413)</u>

When negative, this indicator means that future revenues will be needed to pay for past spending. When positive, it means that there are financial resources available to finance future operations.

This indicator represents an accumulation of comprehensive financial results.

**Question 30:** Do you agree with the change proposed in the statement of financial position to rename the “accumulated surplus/deficit” as “net assets/liabilities”?

## Statement of Change in Net Debt

Year ended March 31 (\$ thousands)

	Budget 20X3	Actual 20X3	Actual 20X2
<b>Comprehensive financial results</b>	28	545	2,504
Acquisition of tangible capital assets	(294)	(294)	(250)
Amortization of tangible capital assets	226	226	230
(Gain) / loss on sale of tangible capital assets	0	(5)	(19)
Proceeds on sale of tangible capital assets	0	46	72
Write-downs of tangible capital assets	0	24	44
	(68)	(3)	77
Acquisition of supplies inventories	0	0	(324)
Acquisition of prepaid expense	0	(30)	(20)
Consumption of supplies inventories	0	110	102
Use of prepaid expense	0	20	0
	0	100	(242)
<b>(Increase) / decrease in net debt</b>	(40)	642	2,339
<b>Net debt at beginning of year</b>	(8,870)	(8,870)	(11,209)
<b>Net debt at end of year</b>	(8,910)	(8,228)	(8,870)

Statement of Cash Flow (Indirect Method)

Year ended March 31 (\$ thousands)

	Actual 20X3	Note	Actual 20X2
<b>Operating transactions</b>			
Comprehensive financial results	545		2,504
Non-cash items including amortization	335		569
Prepaid expenses	(30)		(20)
Change in unearned revenue	(23)		16
Other	(1,073)		(203)
<b>Cash provided by/(applied to) operating transactions</b>	<b>(246)</b>		<b>2,866</b>
<b>Capital transactions</b>			
Capital transfers received	365		280
Proceeds on sale of tangible capital assets	46		72
Cash used to acquire tangible capital assets	(294)		(250)
<b>Cash provided by/(applied to) capital transactions</b>	<b>117</b>		<b>102</b>
<b>Investing transactions</b>			
Proceeds from disposals and redemptions of portfolio investments	262		2,997
Repayment of loans and advances	768		1,129
Portfolio investments	(594)		(4,089)
Loans and advances	(290)		(280)
Other	(17)		(15)
<b>Cash provided by/(applied to) investing transactions</b>	<b>129</b>		<b>(258)</b>
<b>Net cash provided by/(applied to) activities</b>	<b>0</b>	<b>4</b>	<b>2,710</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,366</b>	<b>4</b>	<b>1,137</b>
<b>Net cash available for/(required from) financing transactions</b>	<b>1,366</b>	<b>4</b>	<b>3,847</b>
<b>Financing transactions</b>			
Public debt issues	13,970	<b>4</b>	3,694
Public debt retirement	(14,759)	<b>4</b>	(6,175)
Other	0	<b>4</b>	0
<b>Cash provided by/(applied to) financing transactions</b>	<b>(789)</b>	<b>4</b>	<b>(2,481)</b>
<b>Cash and cash equivalents at end of year</b>	<b>577</b>	<b>4</b>	<b>1,366</b>

The indirect method is used for illustrative purposes only.

Both the indirect and direct method are allowed to report cash flows.

**Explanatory notes:**

- 1 Operating transfers received would be recognized as operating revenue when received, except if they meet the definition of a liability. Large operating transfers received near year end that have stipulations requiring their application to future periods would likely be recognized as liabilities until the stipulations are met. Operating transfers received that are recognized as a liability would be recognized in operating revenue as the liability is settled.

Capital transfers received may be recognized as liabilities until the related asset is bought or built or until the asset is used to provide services as allowed by GOVERNMENT TRANSFERS, Section PS 3410. Capital transfers received that are stipulated to be used for buying or building a tangible capital asset would be recognized in revenue as the related asset is bought or built and would be reported below the net result of services line. Specified capital transfers received for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years would be recognized in operating revenue as the liability is settled. This proposal is based on the recognition requirements in GOVERNMENT TRANSFERS, Section PS 3410, as they are currently stated. The difference in how these two types of capital transfers are reported on the statement of comprehensive financial results would be set out as a consequential amendment to GOVERNMENT TRANSFERS, Section PS 3410. Thus, net result of services is not distorted by capital transfers that are to be used to buy or build a tangible capital asset.

- 2 Amortization would be included in operating expenses by function.
- 3 Net investment income would include realized gains and losses on items (re)measured at fair value. Unrealized remeasurement gains (losses) would include unrealized fair value remeasurements and exchange gains or losses arising prior to settlement. These would be shown separately from recurring, replicable operating results to emphasize the greater degree of uncertainty in these unrealized amounts. No separate statement of remeasurement gains and losses would be prepared. This approach would be a change to the reporting requirements in FINANCIAL STATEMENT PRESENTATION, Section PS 1201, and the presentation requirements in FINANCIAL INSTRUMENTS, Section PS 3450 and FOREIGN CURRENCY TRANSLATION, Section PS 2601, as they relate to the statement of remeasurement gains and losses. Note disclosure would supplement the information reported on the statement of comprehensive financial results, similar to the detail now required to be reported on the statement of remeasurement gains and losses.

In the reporting period that a financial instrument in the fair value category is derecognized, the accumulated unrealized remeasurement gain or loss associated with the derecognized item is reversed and included in net result of services.

With respect to unrealized foreign currency exchange gains and losses, in the period of settlement, the accumulated unrealized foreign currency exchange gains and losses is reversed and included in net result of services.



- 4 The statement of cash flow would be substantially unchanged, although a subtotal of cash (requirements)/available would be calculated before reporting financing transactions. This format would allow the amount of cash required from or available for financing activities to be highlighted and may be more explainable to users. The proposed presentation would allow the cash flow statement to better reflect funding decisions at a whole of entity level given the focus of the other statements on accrual information.
- 5 Unusual items, such as natural disasters, would be separately reported from the net result of services/programs. Guidance for identifying items as "unusual" would be provided at the standards level. The statement of principles would propose such guidance in a revised FINANCIAL STATEMENT PRESENTATION, Section PS 1201.
- 6 Net result of services/programs would be the difference between operating revenues and operating expenses. Operating revenues would be all revenues excluding transfers for acquisition of tangible capital assets, unrealized remeasurement gains and any revenue resulting from unusual items. Operating expenses would be all expenses excluding unrealized remeasurement losses and any expenses related to unusual items. The net result of services indicator is important as it would link to more detailed cost information at the program level. And for those entities that budget and do their appropriations on a full accrual basis, this information would also link to appropriations.
- 7 **Budget proposals:**
  - Budget numbers would continue to be provided in the financial statements for comparison with actual numbers, both on the statement of comprehensive financial results and on the statement of change in net debt.
  - The budget proposals recognize the reality that it may not be possible to budget for some aspects of financial results, such as unrealized valuation changes and unusual items.
  - Ideally the accounting basis, entity and classification used in an entity's budget would be the same as that used for its financial statements.
  - It is possible that an entity might have variances from budget that relate to accounting differences (accounting basis, entity and classification) as well as those that relate to economic and operational differences.
  - It is proposed that when the approved original budget and financial statements are prepared on a comparable basis (entity, accounting basis and classification are the same) the actual to budget comparison would be done on the face of the statements of comprehensive financial results and change in net debt.
  - If the accounting basis or classification used in the budget is different than that used for the financial statements, the budget amounts would need to be restated and the restated amounts would be identified and reported as such on the face of the

statements of comprehensive financial results and change in net debt. Disclosures would reconcile the restated budget numbers back to those reported in the approved original budget.

- If the reporting entity used for budget purposes is different than that used for the financial statements, the statements of comprehensive financial results and change in net debt would provide a note on the face of the statements indicating and explaining why the budget to actual comparison could not be done.
- An amended approved budget allowed to be used by a public sector entity if the government changed – the amended budget would be differentiated from forecasts updated over the course of the year.

8 Net assets/liabilities would be an indicator calculated as the sum of net financial assets/(net debt) and non-financial (primarily tangible capital) assets. The change in net assets/liabilities would comprise changes in net financial assets/(net debt) and non-financial (primarily tangible capital) assets.

9 "Unearned revenue" refers to items that meet the definition of a liability but may commonly be called "deferred revenue". The use of this term does not imply the adoption of deferred inflows and outflows as elements of financial statements. Nor is such terminology reflective of a precedent that items that do not meet the definitions of assets and liabilities can be recognized in public sector financial statements. Examples of items that might fall into a line item such as this include development fees accounted for in accordance with RESTRICTED ASSETS AND REVENUES, Section PS 3100, or government transfers meeting the three characteristics of liabilities in accordance with GOVERNMENT TRANSFERS, Section PS 3410, and LIABILITIES, Section PS 3200. Only items that meet the definition of assets and liabilities are recognized in public sector financial statements.

The Task Force contemplated allowing public sector entities to show the breakdown of net assets/liabilities on the statement of financial position. In order to achieve consistency in the breakdown among similar public sector entities, the Task Force discussed the possibility of providing criteria or a framework for this breakdown. It was concluded that since FUNDS AND RESERVES, PSG-4, permits the disclosure of the breakdown of net assets/liabilities in the notes, that this practice should be continued. This will allow those public sector entities who showed fund balances to continue to show the different funds and reserves they manage in the notes.

**Question 31:** With respect to the breakdown of net assets/liabilities, do you agree that note disclosure is the most appropriate way to present the categorization of net assets/liabilities?

Endowment contributions and income from endowment investments are not highlighted in the proposed statement of comprehensive financial results. Endowment funds are not highlighted in the statement of financial position and any transactions or events related to endowments are not illustrated on the statements of change in net debt or cash flow. The accounting for endowments funds, endowment contributions, and income from endowment investments are standards level issues that would be contemplated in the future.

**General questions to consider**

**Question 32:** The broad financial accountabilities expected to be demonstrated by public sector entities are:

- (a) the extent to which the entity performed in accordance to plan;
- (b) the state of the financial condition of the entity; and
- (c) the comprehensive financial performance of the entity.

Do the financial statements proposed support these broad financial accountabilities?

**Question 33:** In developing a revised conceptual framework and reporting model, the Task Force believes that the proposals suit the needs of all public sector entities. Are there issues specific to certain types of public sector entities that the Task Force should consider further?

**Question 34:** The Task Force has developed a reporting model that incorporates a “presentation solution” to better display the result of services and volatility arising from certain government transfers, unexpected events and fair value changes. Do you agree that the reporting model proposed builds in the flexibility that allows public sector entities to “tell their story”?

**Question 35:** Feedback from previous consultations indicated that MD&A or FSD&A types of reporting needs to be increased in order to improve understandability of public sector financial reporting. FSD&A is a type of optional reporting currently described in SORP 1. SORPs do not form part of GAAP. Should FSD&A type reporting become GAAP?

**Question 36:** Do you have any other suggestions for how public accountability and understandability can be improved?

## Appendix A – Questions on various aspects of Conceptual Framework Consultation Paper 3

### Questions relating to the fundamentals of the conceptual framework

1. Do you agree with the service capacity concept, as described in paragraph 7?
2. The Task Force is proposing five high-level objectives of financial statements.
  - (a) Do you agree with the objective of accounting for the full nature and extent of the resources and financial affairs for which a public sector entity is accountable, as described in paragraph 11(a)?
  - (b) Do you agree with the objective of presenting information to describe a public sector entity's financial position at the end of the accounting period, as described in paragraph 11(b)?
  - (c) Do you agree with the objective of presenting information to describe the changes in a public sector entity's ability to finance its activities, meet its obligations and provide future services in the accounting period, as described in paragraph 11(c)?
  - (d) Do you agree with the objective of providing information that is useful in demonstrating a public sector entity's accountability for the financial affairs and resources for which it is responsible, as described in paragraph 11(d)?
  - (e) Do you agree with the objective of providing information to describe the significant financial risks to which a public sector entity is exposed, as described in paragraph 11(e)?
3. Do you agree with the proposed change to the qualitative characteristics of replacing reliability with faithful representation?
4. Do you agree that benefits versus costs and materiality should be considerations in applying the qualitative characteristics, as indicated in paragraph 13?
5. Do you agree that the elements of financial statements should be limited to economic phenomena and changes in them, as stated in paragraph 14?
6. Do you agree that the elements of financial statements should be assets, liabilities, revenues and expenses, as stated in paragraph 15?
7. Do you agree with the asset definition, as presented in paragraph 16?

8. Do you agree with the liability definition, as presented in paragraph 17?
9. Do you agree with the revenues definition, as presented in paragraph 18?
10. Do you agree with the expenses definition, as presented in paragraph 19?
11. Do you agree that the general recognition criteria should not change, as indicated in paragraph 20?
12. Do you agree that derecognition principles should not be included in the conceptual framework, as indicated in paragraph 21?
13. Do you agree with the measurement attribute, as described in paragraph 22?
14. Do you agree with the conceptual presentation objective, as described in paragraph 23?
15. Do you agree with the restrictions on information provided supplemental to the core requirements, as listed in paragraph 24?
16. Do you agree with the parameters to be considered in determining what information to include in financial statements, as listed in paragraph 25?
17. Do you agree with the relative equality of the individual financial statements and the notes to the financial statements in meeting the accountability objective, as described in paragraph 26?
18. Do you agree with the basic principles relating to what information financial statements should present, as listed in paragraph 27?
19. Do you agree with the considerations for evaluating presentation and disclosure choices, as listed in paragraph 28?

**Questions relating to the features of the proposed reporting model**

20. Do you agree with combining the statement of operations with the statement of remeasurement gains and losses to make a single periodic financial results statement?
21. Do you agree with the proposed statement of comprehensive financial results?
22. Do you agree with the segregation of “unusual items” from net result of services? If so, in developing a definition or guidance for “unusual items”, what would the definition or guidance be?
23. Do you agree that unrealized remeasurement gains and losses should be presented separately from net result of services?

24. Do you agree with the proposed presentation for capital transfers received (i.e., capital transfers stipulated to be used for buying or building a tangible capital asset are to be reported below net result of services and capital transfers that are related to the use of the tangible capital asset would be recognized in operating revenue as the liability is settled)?
25. Do you agree with the proposed change made to the statement of cash flow to calculate the subtotal of cash requirements/available before financing transactions?
26. Do you agree with the budget proposals?
27. Are there situations, other than a change in government that would support the use of an amended budget?
28. The Task Force has not identified annual surplus/deficit as an indicator. Should annual surplus/deficit be an indicator in the proposed statement of comprehensive financial results? If yes, how should it be defined?

#### Questions pertaining to the illustrative financial statements

29. On the proposed statement of comprehensive financial results, are there better labels for the indicators (i.e., net result of services) or the statement, which would be more informative or would provide increased understandability? If so, what would they be?
30. Do you agree with the change proposed in the statement of financial position to rename the “accumulated surplus/deficit” as “net assets/liabilities”?
31. With respect to the breakdown of net assets/liabilities, do you agree that note disclosure is the most appropriate way to present the categorization of net assets/liabilities?

#### General questions to consider

32. The broad financial accountabilities expected to be demonstrated by public sector entities are:
  - (a) the extent to which the entity performed in accordance to plan;
  - (b) the state of the financial condition of the entity; and
  - (c) the comprehensive financial performance of the entity.

Do the financial statements proposed support these broad financial accountabilities?

33. In developing a revised conceptual framework and reporting model, the Task Force believes that the proposals suit the needs of all public sector entities. Are there issues specific to certain types of public sector entities that the Task Force should consider further?
34. The Task Force has developed a reporting model that incorporates a “presentation solution” to better display the result of services and volatility arising from certain government transfers, unexpected events and fair value changes. Do you agree that the reporting model proposed builds in the flexibility that allows public sector entities to “tell their story”?
35. Feedback from previous consultations indicated that MD&A or FSD&A types of reporting needs to be increased in order to improve understandability of public sector financial reporting. FSD&A is a type of optional reporting currently described in SORP 1. SORPs do not form part of GAAP. Should FSD&A type reporting become GAAP?
36. Do you have any other suggestions for how public accountability and understandability can be improved?