PSAB
Public Sector Accounting Board

Exposure Draft

Financial Statement Presentation, Proposed Section PS 1202

JANUARY 2021

COMMENTS TO PSAB MUST BE RECEIVED BY
MAY 12, 2021

We value your input and look forward to your feedback on this Exposure Draft. Comment on this document by taking part in the Connect.FRASCanada.ca project or submitting a comment letter addressed to:

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This Exposure Draft reflects proposals made by the Public Sector Accounting Board (PSAB).

Individuals, governments and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning. All comments PSAB receives will be available on the website shortly after the comment deadline unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

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INTRODUCTION

This Exposure Draft and the Exposure Draft, "The Conceptual Framework for Financial Reporting in the Public Sector," are issued at the same time, as the concepts in the proposed Conceptual Framework and the principles for a financial statement presentation standard are interrelated.[1] The concepts in the proposed Conceptual Framework, specifically those in Chapter 6, "Financial Statement Objectives," either foreshadow or are the foundation for what is in the financial statement presentation standard detailed in this Exposure Draft. As a result, this Exposure Draft should be read after the proposed Conceptual Framework.

HIGHLIGHTS

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following exposure, to issue a revised financial statement presentation standard, FINANCIAL STATEMENT PRESENTATION, Section PS 1202. The revised Section would replace FINANCIAL STATEMENT PRESENTATION, Section PS 1201.

The Basis for Conclusions, which accompanies this Exposure Draft, sets out PSAB's reasons for the key changes to the financial statement presentation standard.

This Exposure Draft identifies — in brackets at the start of each paragraph — the paragraphs that have been brought forward from Section PS 1201 or Section PS 1000, with minor amendments and new paragraphs being introduced. These brackets will be removed for the final standard.

REASONS FOR THE PROPOSED FINANCIAL STATEMENT PRESENTATION STANDARD

PSAB is proposing a revised financial statement presentation standard that builds on the existing one in Section PS 1201. After considering the relative merits of many reporting models and the extensive input received from stakeholders, the Board believes that the proposed reporting model meets user needs and is both pragmatic and strategic. The Board concluded that:

- The proposed reporting model responds to the need for understandable financial statements for the public and its elected and appointed representatives. The model would report only elements that the public recognizes from its own finances: assets, liabilities, revenues and expenses.
- The model is aspirational in that it provides the Board the ability to deal with:
  - current issues, such as remeasurements and performance obligations; and
  - future issues, such as heritage resources, natural capital and endowments,

  while ensuring that the economic substance of items, transactions and other events is reflected for improved accountability information.

MAIN FEATURES OF THE EXPOSURE DRAFT

The main features of the Exposure Draft relate to the financial statement package, which includes:

- a statement of financial position;
- a statement of net financial assets or net financial liabilities;
- a statement of operations;

1 For the remainder of this document, the proposed Conceptual Framework in the Exposure Draft, "The Conceptual Framework for Financial Reporting in the Public Sector," will be referred to as the "proposed Conceptual Framework" or "Conceptual Framework."

- a statement of changes in net assets or net liabilities;
- a statement of cash flow; and
- accompanying notes and schedules.

The Exposure Draft also features new budget requirements.

Statement of financial position

The net debt indicator is relocated to its own statement, the statement of net financial assets or net financial liabilities because, among other things:

- it allows the indicator to be prominently displayed in a statement, given its importance, rather than being presented as a subtotal in the statement of financial position; and
- it gives PSAB the ability to refine the calculation of the indicator to ensure its original meaning is retained.

A net debt position has been renamed "net financial liabilities."

Liabilities are separated into two categories: financial and non-financial. This would remove some liabilities from the calculation of the net financial assets or net financial liabilities indicator and return the indicator to its original meaning.

The statement of financial position is restructured to present total assets followed by total liabilities to arrive at the net assets or net liabilities indicator of financial position to make the statement more understandable to users.

"Accumulated other" was added as a third component of net assets or net liabilities. (The reporting model in Section PS 1201 includes two components of net assets or net liabilities, accumulated operating surplus or deficit and accumulated remeasurement gains and losses.)[2] This third component allows PSAB to respond to users' needs as they arise and transparently reflect the economic substance of unique transactions and other events, leading to improved accountability information presented in the financial statements.

The statement of net financial assets or net financial liabilities

The statement of net financial assets or net financial liabilities is a new statement. It presents more prominently the net financial assets or net financial liabilities indicator.

The calculation of the indicator is proposed to be financial assets minus financial liabilities. This allows the indicator to measure what it was meant to measure.

- A net financial assets position means there are financial assets available to provide services in the future and settle future financial liabilities.
- A net financial liabilities position means there is a need for future financial assets to settle past financial liabilities. It represents a lien on future financial assets and affects an entity's ability to finance its activities, provide services and settle its financial liabilities in the future.

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2 The reporting model in FINANCIAL STATEMENT PRESENTATION, Section PS 1201, is required to be adopted by governments when they adopt FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450; Sections that apply to fiscal years beginning on or after April 1, 2022. Government organizations that applied the CPA Canada Handbook – Accounting prior to their adoption of the CPA Canada Public Sector Accounting (PSA) Handbook, have applied Sections PS 2601 and PS 3450 to fiscal years beginning on or after April 1, 2012.

A sentence explaining the meaning of the indicator is required to be included on the statement so that the net financial assets or net financial liabilities indicator can be better understood.

The requirement to present a statement of change in net debt is removed as many stakeholders feel it is a reconciliation that is not well understood. However, if an entity chooses to, it can present the reasons why net financial assets or net financial liabilities (currently known as “net debt”) has changed in the accounting period. This information would be presented if the entity concludes that this information:

- provides good accountability information; and
- can be made understandable for the user.

Presenting all the information on the indicator in one statement, the statement of net financial assets or net financial liabilities, may lead to it being better understood and allows for a more comprehensive narrative about the indicator.

One of the key reconciling items on the statement of change in net debt is the actual capital spending in the period compared to that budgeted. PSAB proposes to retain this requirement as many entities have significant holdings of tangible capital assets. If an entity chooses to present the change in net financial assets or net financial liabilities, then the actual-to-budget capital spending would be presented as one explanatory item for this change on the statement of net financial assets or net financial liabilities. Otherwise, this information would be disclosed in the notes.

The statement of operations

The statement of operations is substantially unchanged. The presentation of revenues by major type is retained as this provides useful accountability information for understanding and assessing:

- the impact of revenue raising on the economy;[3]
- the relative contributions of revenue sources; and
- the revenue-producing capacity of investments.

The presentation of expenses by function (i.e., major program) is retained as this provides useful accountability information on the cost of the entity’s economic resources consumed in carrying out its objectives (i.e., major programs).

Clarity has been provided in relation to the presentation of revenues and expenses. The existing requirements indicate that financial statements should disclose the gross amounts of revenues and expenses. There has been confusion as to what this requirement means. PSAB is providing clarity by indicating that revenues and expenses are to be reported at their gross amounts on the face of the financial statements unless required otherwise by another standard.[4]

The presentation of the actual-to-budget comparison remains as this comparison is a crucial aspect of the accountability cycle.

The statement of changes in net assets or net liabilities

The statement of changes in net assets or net liabilities is a new statement. It shows the reconciliation between the opening and closing balances of each component of net assets or net liabilities. The purpose of the statement is to be transparent with respect to those revenues and expenses recognized in surplus or deficit and those recognized directly in a component of net assets or net liabilities (i.e., accumulated remeasurement gains and losses or accumulated other).

3 Likely only applicable to governments.

4 This is consistent with REVENUE, paragraph PS 3400.A35, which states “If [an entity] is acting as a principal, then the public sector entity recognizes the revenues on a gross basis.”

This new statement does not preclude an entity from also providing a detailed statement or schedule to support summary information in any particular component if the details of changes in that component in the period would be too complex for the new statement. For example, an entity may wish, for accountability purposes, to provide a statement of remeasurement gains and losses (or a schedule with the same detail), and just include summary information for this component on the statement of changes in net assets or net liabilities.

The details in Section PS 1201 for presenting remeasurement gains and losses specific to financial instruments and foreign currency translation are proposed to be relocated to the relevant standards rather than transferred to the new Section PS 1202.

The statement of cash flow

In the statement of cash flow, the financing activities are proposed to be isolated. This presentation would show whether all of an entity's other activities combined resulted in the need for cash to be raised through financing activities. This is an aspect of an entity's sustainability, and reporting on sustainability is an important dimension of accountability reporting.

New budget requirements

The budget amounts on the financial statements should be presented using the same basis of accounting, following the same accounting principles, for the same scope of activities, and using the same classifications as the actual amounts. This allows for an understandable actual-to-budget comparison.

When budget information is not prepared or approved, an acknowledgment stating this fact should be presented. The budget is a key aspect of the accountability cycle. As a result, it is important to indicate when the budget is not prepared or approved.

There are two situations in which an entity may present an amended approved budget and those situations relate to when there has been a change in governance initiated by the primary users. Since the purpose of financial statements is to provide accountability to the primary users, when those users decide to change their representatives and their mandate, the use of an amended approved budget may be appropriate.

EFFECTS OF THE PROPOSALS

In a separate Exposure Draft, "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202," PSAB proposes to:

- update references to the financial statement presentation standard in the various standards in the CPA Canada Public Sector Accounting (PSA) Handbook; and
- make other necessary amendments to the standards as a result of the proposed financial statement presentation standard.

Effects for preparers

The proposals affect the presentation of financial statements. As a result, preparers would need to update their financial systems and processes to reflect the revised financial statement presentation. The proposals build on the existing reporting model in Section PS 1201 issued in 2011. However, governments have not yet adopted this model as adopting it is required coincident with governments adopting the financial instrument suite of standards.

Effects for financial statement users

The intent of the proposals is to improve understandability and provide financial statement users with better information for accountability purposes. In particular, the proposals aim to improve how information is presented in financial statements and thus improve the quality of financial reporting by:

- providing understandable information about financial position and the net financial assets or net financial liabilities indicator; and
- improving the transparency about those revenues and expenses that would be reflected in and outside of a period's surplus or deficit.

Effects for entities

Section PS 1202 would apply to all entities that prepare financial statements in accordance with the PSA Handbook, except for those applying the PS 4200 series and the reporting model contained therein.

COMMENTS REQUESTED

PSAB welcomes comments from individuals, governments and organizations.

PSAB is seeking responses to the following questions:

1. **Do you agree with the proposed new financial statement presentation standard?**
2. **Do you agree with the effective date of April 1, 2024, to implement the financial statement presentation standard, Section PS 1202?**

Comment on this document by taking part in the Connect.FRASCanada.ca project or submitting a comment letter.

If you provide detailed comments, they are most helpful if they relate to a specific concept, paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Exposure Draft should clearly explain the problem and include a suggested alternative, supported by specific reasoning.

The deadline for providing your comments to PSAB is May 12, 2021.

Even though certain public sector entities apply the PS 4200 series and use the financial statement presentation standard set out in that series of standards, PSAB welcomes feedback from this group of entities and their stakeholders, as the feedback will be used to advance the Board's Government Not-for-Profit Strategy project.

EXPOSURE DRAFT

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PURPOSE AND SCOPE

.001 (New to replace PS 1201.001) This Section sets out general and specific requirements for the presentation of information in general purpose financial statements (“financial statements”). The financial statement presentation principles are based on the concepts in the Conceptual Framework, and particularly respond to the financial statement objectives set out in Chapter 6, “Financial Statement Objectives.”

.002 (New) Other standards set out the recognition, measurement and presentation requirements for specific items, transactions and other events.

.003 (Partial PS 1201.002) Financial statements present aggregated financial information and serve as a means by which an entity demonstrates its accountability for the resources, obligations and financial affairs for which it is responsible.

.004 (New) Chapter 4, “Role of Financial Statements,” of the Conceptual Framework outlines the role and limitations of financial statements.

DEFINITIONS

.005 (New) The following terms are used in this Section with the meaning specified:

(a) (Partial PS 1000.39) A **financial asset** is an asset that could be used to discharge existing financial liabilities or spend on future operations and is not for consumption in the normal course of operations.

(b) (New) A **non-financial asset** is an asset that does not meet the definition of a financial asset.

(c) (New) A **financial liability** is a liability that is expected to be settled using financial assets. Financial liabilities include but are not limited to financial performance obligations.

(d) (New) A **non-financial liability** is a liability that cannot be settled through the use of financial assets but only through the use of non-financial assets or economic resources excluded from recognition as noted in paragraph PS 1202.071. A non-financial liability does not represent a future financial resource requirement. Non-financial liabilities include but are not limited to non-financial performance obligations.

(e) (PS 3400.05) **Performance obligations** are enforceable promises to provide specific goods or services to a specific payor.[5]

(f) (New) A **financial performance obligation** is a type of financial liability.[6] A financial performance obligation is a performance obligation that is expected to be settled using financial assets.

(g) (New) A **non-financial performance obligation** is a type of non-financial liability.[7] A non-financial performance obligation is a performance obligation that cannot be settled through the use of financial assets but only through the use of non-financial assets or economic resources excluded from recognition in paragraph PS 1202.071.

COMPLETE SET OF FINANCIAL STATEMENTS

.006 (Partial PS 1201.031) *A complete set of financial statements should include:*

(a) a statement of financial position;

5 REVENUE, paragraph PS 3400.A6, lists examples of goods and services that might be provided to settle a performance obligation.

6 REVENUE, paragraph PS 3400.27, states: “An unfulfilled performance obligation for a public sector entity has all three of the essential characteristics of a liability.”

7 REVENUE, paragraph PS 3400.27, states: “An unfulfilled performance obligation for a public sector entity has all three of the essential characteristics of a liability.”

(b) *a statement of net financial assets or net financial liabilities;*

(c) *a statement of operations;*

(d) *a statement of changes in net assets or net liabilities;*

(e) *a statement of cash flow; and*

(f) *the accompanying notes and schedules.*

.007 (Partial PS 1000.06) Standards generally do not prescribe titles, format, ordering of financial statements or financial statement elements, or terminology except as required to meet the measurement and presentation requirements of the standards. Standards do, however, specify what measure(s) must be reported on a statement, and the calculation of those measures may demand a certain ordering of the financial statement elements reported. In all other aspects, professional judgment is used to design financial statements tailored to users' needs.

GENERAL PRESENTATION PRINCIPLES

.008 (Partial PS 1201.004) The function of financial statements is to communicate in a structured way information to users that meets the qualitative characteristics of financial information, found in Chapter 7, "Financial Statement Information – Qualitative Characteristics and Related Considerations," of the Conceptual Framework. These general presentation principles provide guidance on the presentation of information in financial statements to fulfill that function.

.009 (New) Chapter 10, "Presentation Concepts for Financial Statements," of the Conceptual Framework establishes general presentation concepts. They provide parameters within which presentation decisions would be made.

Identification of the financial statements

.010 (Partial PS 1201.005) *The financial statements of an entity should be clearly identified.*

.011 (New to replace PS 1201.009) Standards in the PSA Handbook apply only to financial statements, and not necessarily to other information provided in a public report. Therefore, it is important that users of financial statements can distinguish information that is prepared using those standards from other information that may be useful to users but that is not subject to those requirements.

.012 (New) *Financial statements should include the following information:*

(a) *the name of the reporting entity;*

(b) *the date of the end of the accounting period or the period covered by the financial statements; and*

(c) *the level of rounding used in presenting amounts in the financial statements.*

.013 (Partial PS 1201.005) *The financial statements of an entity should include or be accompanied by an acknowledgment of management's responsibility for their preparation.*

.014 (Partial PS 1201.006) Such acknowledgment ensures that users are aware of who is responsible for their preparation. Such an acknowledgment could be expressed in narrative form signed by the appropriate authority.

.015 (PS 1201.024) *Where the financial statements are subject to an independent audit, the auditor's report should be appended to the statements. Unaudited financial statements should be clearly identified as such.*

Fair presentation

.016 (New to replace PS 1201.012) *Financial statements should present any information required for* *the fair presentation of an entity's financial position, net financial assets or net financial liabilities, results of operations, changes in net assets or net liabilities and cash flow.*

.017 (Partial PS 1201.014) The PSA Handbook sets out the concepts and principles for determining the information required in financial statements for fair presentation. The determination of what information is needed in a particular case requires the exercise of professional judgment. No rule of general application can be phrased to suit all circumstances that may arise. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP), Section PS 1150, describes what constitutes GAAP and its sources and indicates sources to consult when a matter is not dealt with explicitly in the PSA Handbook.

.018 (Partial PS 1201.013) Fair note disclosure is not separable from fair presentation of financial statements generally, because recognition within the statements provides the basis for fair disclosure, which is augmented and supported by the accompanying notes. When there are items, transactions or other events, of such size, nature or incidence that their disclosure is necessary to understand an entity's financial position and financial performance, the entity would provide sufficient information about the extent and nature of such items, transactions or other events, so that the effect on the financial statements is transparent and understandable. This information would include the nature and significant terms and conditions of such items, transactions or other events and their financial effects.

.019 (New) An entity would consider whether to provide additional disclosures when compliance with the specific requirements in standards is insufficient to enable users of financial statements to understand the impact of items, transactions and other events on the entity's financial position and financial performance.

.020 (New) There may be instances where legislation requires certain entities to present information in the financial statements that is inconsistent with standards and/or the Conceptual Framework. In these rare circumstances, this information is to be clearly disclosed as being inconsistent with the standards and/or the Conceptual Framework.

.021 (PS 1201.016) *Financial statements should be presented in such form and use such terminology and classification of items that information is readily understandable.*

.022 (Partial PS 1201.017) Excessive detail, vague or overly technical descriptions and complex presentation formats can result in confusion and misinterpretation.

.023 (PS 1201.026) *Financial statements should present the substance of items, transactions and other events.*

.024 (Partial PS 1201.027) Financial statement information is faithfully represented when it accounts for, and fairly presents, the substance of items, transactions and other events in accordance with their economic reality.

.025 (PS 1201.028) Entities endeavour to account for the substance of items, transactions and other events. However, legislation sometimes requires that certain items, transactions or other events be accounted for, or reported in, a manner that does not reflect their substance. Compliance with such legislative reporting requirements would be met by preparing special purpose financial statements or reports.

Going concern

.026 (New) *When preparing financial statements, it is presumed that the entity will be able to continue as a going concern. Financial statements should therefore be prepared on a going concern basis unless the entity intends to cease operating or has no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware of significant changes in circumstances such that there may be cause to question the entity's ability to continue as a going concern, the material uncertainties related to this consideration should be disclosed. In* *rare circumstances, if financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the basis has changed.*

.027 (New) In determining whether the going concern assumption is appropriate, consideration is given to the type of public sector entity and the type of decision or other event that may lead to the entity ceasing operations.

.028 (New) Governments are long-term institutions. Under normal circumstances, they, and the related government components that function as a core government, are expected to operate in perpetuity. Governments are presumed to be going concerns. This presumption can only be rebutted by persuasive evidence to the contrary. Going concern considerations relevant to governments include the ongoing ability to issue debt and raise resources, for example, by levying taxes or charging fees. The ability to access capital markets to finance operations for extended periods while operating in a net liabilities position is also an important factor for governments. These considerations are significant for sovereign governments because of their extensive capacity to raise resources and access capital markets. Territorial, local and Indigenous governments have additional going concern considerations:

(a) Territorial governments are created by the federal government. As a result, further going concern considerations for territorial governments may be closely linked to decisions of the federal government.

(b) Local governments are created by provincial and territorial governments. As a result, further going concern considerations for local governments may be closely linked to decisions of the governments that created them.[8]

(c) Indigenous government jurisdiction may be affirmed or recognized in Canada by federal and, where applicable, provincial and territorial governments through treaties, self-governing agreement, legislation and policy. As a result, for some Indigenous governments, further going concern considerations may be linked to financial and other arrangements with other levels of government.

.029 (New) Going concern considerations for government organizations are closely linked to their controlling governments and would include factors such as:

(a) announced restructurings, such as reorganizations or decisions to wind up operations of a government organization that arise from policy decisions of the controlling government;[9]

(b) likelihood of other future policy decisions that will impact a government organization's existence; and

(c) likelihood of continued financial support from the controlling government.

.030 (New) Other going concern considerations for government organizations may include:

(a) current and expected financial performance; and

(b) the stability of existing and potential sources of funding other than from the controlling government.

Materiality

.031 (New to replace PS 1201.015) An entity would not need to provide a specific presentation required by a standard or guideline if the information resulting from that presentation is not material. This is the case even if a standard or guideline contains a list of specific requirements or describes them as minimum requirements.

8 For example, local governments may be amalgamated because of the relevant provincial or territorial government policy decisions. Restructurings, including amalgamations, are accounted for in accordance with RESTRUCTURING TRANSACTIONS, Section PS 3430.

9 Section PS 3430 provides guidance on reporting such transactions.

Aggregating

.032 (Partial PS 1201.017) *Immaterial items that share similar characteristics should be aggregated and described in a manner that faithfully represents the characteristics of the aggregated items. If this cannot be done, or if immaterial items that do not share similar characteristics are aggregated, then information should be disclosed in the notes about the composition of the aggregated items, for example, by indicating that an aggregated item consists of several unrelated immaterial amounts and by indicating the nature and amount of the largest items in the aggregation.*

Comparative financial information

.033 (PS 1201.018) *Financial statements should present a comparison of current period amounts with those of the prior period.*

.034 (New to replace PS 1201.019) A comparison of current period amounts with those of the prior period helps users identify or compute trends in an entity's financial position and changes in financial position, and make comparisons from one period to the next. To facilitate meaningful comparisons, prior period information needs to be reported using accounting policies, classification and scope consistent with that used to report current period information.

.035 (Partial PS 1201.020) *Accounting policies should be applied consistently from one period to another.*

.036 (Partial PS 1201.021) Changes to accounting policies would be made only when they result in a more appropriate presentation. ACCOUNTING CHANGES, Section PS 2120, establishes requirements for presentation of changes in accounting policies. DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100, establishes required disclosures of accounting policies.

Line items and subtotals

.037 (New) *This Section requires minimum line items and subtotals to be presented on the face of the statements. An entity should present additional line items, headings and subtotals when such presentations are relevant to an understanding of the entity's financial position and change in financial position.*[10]

.038 (New) *When an entity presents additional subtotals in accordance with paragraph PS 1202.037, those subtotals should:*

- *(a) comprise line items made up of amounts recognized and measured in accordance with standards in the PSA Handbook;*
- *(b) be presented and labelled in a manner that faithfully represents the line items that constitute the subtotal, making the subtotal clear and understandable;*
- *(c) be consistent from period to period; and*
- *(d) not be displayed with more prominence than the subtotals and totals required by standards in the PSA Handbook.*

MEETING THE FINANCIAL STATEMENT OBJECTIVES

.039 (New) The complete set of financial statements is prepared to meet the financial statement objectives in Chapter 6, "Financial Statement Objectives," of the Conceptual Framework:

- (a) Objective 1: determining the scope of financial statements;

10 Chapter 10, "Presentation Concepts for Financial Statements," paragraph 10.24 of the Conceptual Framework provides criteria to consider when determining if supplemental information to that required by the PSA Handbook should be included in an entity's financial statements. Such criteria would also be considered when an entity is contemplating additional line items, headings and subtotals in its financial statements.

(b) Objective 2: reporting financial position;

(c) Objective 3: reporting changes in financial position;

(d) Objective 4: comparing the actual financial performance to that projected in the budget;

(e) Objective 5: disclosing non-compliance with financial authorities; and

(f) Objective 6: disclosing risks and uncertainties.

.040 (New) This Section sets out guidance in relation to Objectives 2-6. Chapter 5, "Financial Statement Foundations," and Chapter 6, "Financial Statement Objectives," of the Conceptual Framework and GOVERNMENT REPORTING ENTITY, Section PS 1300, provide guidance in relation to determining the scope of financial statements as required by Objective 1.

Reporting financial position

.041 (Partial PS 1201.032) The statement of financial position highlights three key aspects that describe the financial position of an entity at the financial statement date:

(a) its assets and liabilities at the end of the accounting period, each segregated between financial and non-financial (as indicated in paragraphs 6.15-6.18 of the Conceptual Framework);

(b) its net financial position, the net assets or net liabilities indicator (as indicated in paragraph 6.19 of the Conceptual Framework); and

(c) the components of net financial position (as indicated in paragraph 6.20 of the Conceptual Framework).

.042 (New) The statement of net financial assets or net financial liabilities highlights the net financial assets or net financial liabilities indicator, an affordability aspect of financial position (as indicated in paragraph 6.21 of the Conceptual Framework). A net financial assets position means there are financial assets available to provide services in the future and settle future financial liabilities. A net financial liabilities position means there is a need for future financial assets to settle past financial liabilities. It represents a lien on future financial assets and affects an entity's ability to finance its activities, provide services and settle its financial liabilities in the future.

.043 (Partial PS 1201.043) Financial statements also include information about an entity's:

(a) contractual rights in accordance with CONTRACTUAL RIGHTS, Section PS 3380;

(b) contractual obligations in accordance with CONTRACTUAL OBLIGATIONS, Section PS 3390; and

(c) possible assets and liabilities represented by:

(i) contingent assets in accordance with CONTINGENT ASSETS, Section PS 3320; and

(ii) contingent liabilities in accordance with CONTINGENT LIABILITIES, Section PS 3300.

This information is also important for users to understand an entity's financial position. It is useful for assessing financial resources that may be required in the future.

Statement of financial position

.044 (New) *The statement of financial position should report financial assets, non-financial assets, financial liabilities and non-financial liabilities. The statement of financial position should account for net assets or net liabilities as the indicator of net financial position. The statement of financial position should report the components of net assets or net liabilities.*

Assets

Financial assets

.045 (Partial PS 1000.39) A **financial asset** is an asset that could be used to discharge existing financial liabilities or spend on future operations and is not for consumption in the normal course of operations.[11]

.046 (Partial PS 1000.40) Assets that meet the definition of a financial asset may include:

(a) cash;

(b) a realizable asset that is convertible to cash;

(c) a contractual right to receive cash or another financial asset from another party;

(d) a contractual right to exchange financial instruments with another party under conditions that are potentially favourable to the reporting entity;

(e) an equity instrument of another entity;

(f) an investment in a government business enterprise or business partnership;

(g) a financial claim on an outside organization or individual; or

(h) an inventory or item for sale that meets the criteria in paragraph PS 1202.055.

.047 (PS 1201.050) *The statement of financial position should report financial assets segregated by main classifications, such as:*

(a) cash and cash equivalents;

(b) accounts receivable;

(c) inventories for resale and other assets held for sale that meet the requirements in paragraph PS 1202.055;

(d) loans to other public sector entities;

(e) other loans;

(f) portfolio investments;

(g) investments in government business enterprises; and

(h) interests in business partnerships.

.048 (Partial PS 1201.049) Information about the nature and terms of an entity's financial assets and the method of valuation is necessary to understand and assess the financial assets available to discharge existing financial liabilities or finance future operations.

.049 (PS 1201.051) *Financial statements should disclose in the notes adequate information about the nature and terms of an entity's financial assets together with any valuation allowances.*

.050 (Partial PS 1201.052) Cash and cash equivalents are defined in paragraphs PS 1202.154-.157.

.051 (Partial PS 1201.052) Financial instruments may be presented as financial or non-financial assets depending on whether their use is externally restricted in perpetuity. For example, endowments restricted in perpetuity may be in the form of financial instruments. Nevertheless, regardless of whether they are presented as financial or non-financial assets on the statement of financial position, standards for recognition, measurement and presentation of financial instruments, including derivatives, are provided in FINANCIAL INSTRUMENTS, Section PS 3450.

.052 (Partial PS 1201.052) Recognition, measurement and presentation requirements for an entity's:

(a) loans receivable are outlined in LOANS RECEIVABLE, Section PS 3050;

(b) investments are outlined in FOREIGN CURRENCY TRANSLATION, Section PS 2601,

11 "Consumption" is defined as the "using up of a resource," such as in the way a tangible capital asset, prepaid or inventory of supplies would be used up.

PORTFOLIO INVESTMENTS, Section PS 3041, INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070, FINANCIAL INSTRUMENTS, Section PS 3450; and

(c) investments in business partnerships are outlined in INTERESTS IN PARTNERSHIPS, Section PS 3060.

.053 (Partial PS 1201.052) Information to be disclosed that describes the nature and terms of an entity's investments includes the carrying amounts and the method of valuation.

.054 (Partial PS 1201.052) Inventories for resale and other assets held for sale are financial assets; they are expected to provide financial resources to discharge existing financial liabilities or finance future operations.

.055 (Partial PS 1201.055) *An asset held for sale should be recognized as a financial asset when all of the following criteria are met:*

(a) prior to the financial statement date, the appropriate level of authority commits the entity 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 sale to a purchaser external to the reporting entity will be completed within one year of the financial statement date.

.056 (PS 1201.56) The plan in place for selling the asset must identify all significant actions to be taken to sell the asset. Actions required by the plan will begin as soon as possible after the commitment to sell is made.

.057 (Partial PS 1201.053) *Valuation allowances should be used to reflect financial assets at their net realizable or other appropriate value.*

.058 (PS 1201.054) Valuation allowances for financial assets include such items as allowances for doubtful revenue receivables, allowances for unrecoverable loans and accrued interest, allowances for amounts recoverable only through future appropriations and allowances for the valuation of investments.

Non-financial assets

.059 (New) A **non-financial asset** is an asset that does not meet the definition of a financial asset.

.060 (Partial PS 1000.41) Assets that are non-financial assets may include:

(a) tangible capital assets;

(b) inventories held for use;

(c) prepaid expenses;

(d) purchased intangibles;

(e) assets that cannot be used to settle a financial liability or spend on future operations because of restrictions on their use; and

(f) any other asset not available for sale.

.061 (Partial PS 1201.057) *The statement of financial position should report non-financial assets segregated by main classifications such as those listed in paragraph PS 1202.060.*

.062 (Partial PS 1201.058) In a public sector entity's financial statements, recognition and valuation of many non-financial assets is largely based on their service potential (except as it relates to financial instruments that cannot be used to settle a financial liability or spend on future operations). Financial statement users need sufficient information to appreciate the nature of a public sector entity's non-financial assets, as distinct from similar assets held by a business.

.063 (PS 1201.060) Entities acquire tangible capital assets that have economic lives extending beyond the accounting period. Tangible capital assets are available for use, require operating and maintenance expenditures, and may need to be replaced in the future. They include:

(a) assets on hand and available for use by the entity in the near future (e.g., equipment); and

(b) assets for use over a longer period (e.g., buildings and land).

Certain entities also acquire and make available to the public tangible capital assets that are complex network systems (e.g., highways, bridges, waterways and other transit systems).

.064 (Partial PS 1201.061) Regardless of whether they contribute net cash inflows to the entity, all tangible capital assets except those meeting the criteria to be reported as financial assets in accordance with paragraph PS 1202.055 are required to be reported as non-financial assets. This requirement is consistent with the objective of clearly distinguishing in the financial statements the primarily service nature of an entity's non-financial assets.

.065 (Partial PS 1201.061) Generally, non-financial assets that are being developed for sale are no longer being employed to provide services. However, such non-financial assets are under development and not yet in a condition to be sold and, therefore, cannot be reported as financial assets in accordance with paragraph PS 1202.055.

.066 (PS 1201.065) Recognition, measurement and presentation requirements for tangible capital assets are provided in TANGIBLE CAPITAL ASSETS, Section PS 3150.

.067 (Partial PS 1201.066) Inventories held for use are tangible non-financial assets that will be used by the entity in the course of its operations. The future economic benefit to the entity of inventories for use, is embodied in their capacity to render service that will further the entity's objectives. "Raw material" inventory that is intended for use in development or production of inventory or other assets for sale would also be recognized as a non-financial asset. Such materials would only be included in assets for sale when they have been converted into an asset or part of an asset that is in a condition to be sold according to the requirements of paragraph PS 1202.055.

.068 (PS 1201.067) A prepaid expense is a cash disbursement or other transfer of economic resources, other than an outlay for inventory or capital property, before the criteria for expense recognition have been met, that is expected to yield economic benefits over one or more future periods. It is recorded as an asset at the time of incurrence and amortized to expenses over the periods expected to benefit from it. Prepaid expenses generally expire either through the passage of time, such as prepaid rent or insurance, or through use.

.069 (New) As indicated in paragraph PS 1202.051, financial instruments may be presented as financial or non-financial assets depending on whether their use is externally restricted in perpetuity. Assets that are financial instruments that cannot be used to settle a financial liability or spend on future operations, because of restrictions on their use, do not meet the definition of financial assets. These are classified as non-financial assets; however, the recognition, measurement and other presentation requirements in FINANCIAL INSTRUMENTS, Section PS 3450, would apply.

.070 (New) Purchased natural resources, intangibles[12] and Crown lands are recognized in financial statements when they meet the definition of an asset (in Chapter 8, "Elements of Financial Statements," of the Conceptual Framework) and the general recognition criteria (in Chapter 9, "Recognition and Measurement in Financial Statements," of the Conceptual Framework).

.071 (New) In contrast, the following are not recognized as assets in financial statements:

(a) natural resources and Crown lands inherited by the entity in right of the Crown and not purchased (such as water, forests and minerals);

12 Recognizing purchased intangibles is addressed in PURCHASED INTANGIBLES, PSG-8.

(b) developed intangibles and intangibles inherited in right of the Crown (such as the wireless spectrum rights, air rights, sea rights and forestry rights);

(c) "human capital" that embodies the talent or intellectual capital of an entity's employees;

(d) (Partial PS 1201.069) all works of art and historic treasures.

.072 (Partial PS 1201.068) *Financial statements should disclose that works of art and historical treasures, developed or inherited intangibles, and items inherited by right of the Crown, such as Crown lands and natural resources, are not recognized in a public sector entity's financial statements.*

Liabilities

Financial liabilities

.073 (New) A **financial liability** is a liability that is expected to be settled using financial assets. Financial liabilities include but are not limited to financial performance obligations.

.074 (New) Most liabilities of a public sector entity will be financial liabilities. Liabilities that meet the definition of a financial liability may include:

(a) accounts payable and accrued liabilities;

(b) liabilities for employee future benefits;

(c) liabilities for contaminated sites;

(d) asset retirement obligations;

(e) borrowings;

(f) loans payable to other public sector entities;

(g) derivative financial instruments;

(h) capital lease obligations;

(i) public private partnership obligations arising from the financial liability model type of public private partnership arrangement;

(j) liabilities resulting from certain financial resources received in non-exchange transactions;[13] and

(k) liabilities resulting from certain financial resources received prior to recognition as revenue.[14]

.075 (New) Financial liabilities generally require the entity to repay borrowings or to pay for goods and services acquired or received prior to the financial statement date. Other financial liabilities require the satisfaction of financial performance obligations or certain restrictions and/or stipulations. In the case of derivatives that will be settled using financial assets, these represent contractual obligations to deliver a financial asset to another entity or to exchange financial instruments with another entity under conditions that are potentially unfavourable to the reporting entity.

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13 Examples may include the following:
(a) An obligation that arises in relation to GOVERNMENT TRANSERS, paragraph PS 3410.23(b): "a capital transfer for the purpose of acquiring or developing a tangible capital asset."
(b) An obligation that may arise in relation to paragraph PS 3410.23(c): "a capital transfer for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years." When an entity receives the transfer, the initial liability would be a financial liability. The financial liability would then be reclassified to non-financial liabilities as the tangible capital asset is constructed or purchased because the non-financial liability is then satisfied through the use of the tangible capital asset. NOTE: Amendments are being proposed to Section PS 3410 to clarify this presentation in the Exposure Draft, "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202."
(c) Liabilities arising from operating transfers.

14 Examples may include the following:
(a) financial performance obligations; and
(b) externally restricted inflows of financial assets to be used for specific purposes are outlined in RESTRICTED ASSETS AND REVENUES, Section PS 3100.

.076 (Partial PS 1201.045) *The statement of financial position should report financial liabilities segregated by main classifications, such as those listed in paragraph PS 1202.074.*

.077 (PS 1201.046) *Financial statements should disclose adequate information about the nature and terms of an entity's financial liabilities.*

.078 (Partial PS 1201.044) Reporting on an entity's financial liabilities at the financial statement date is necessary to understand and assess demands on its financial resources. When used with other available financial data, information about the nature and terms of financial liabilities facilitates assessments of such matters as debt management and exposure to foreign exchange fluctuations.

.079 (Partial PS 1201.047) Recognition, measurement and presentation requirements for an entity's liabilities related to:

(a) employee future benefits are outlined in RETIREMENT BENEFITS, Section PS 3250, and POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255;

(b) contaminated sites are outlined in LIABILITY FOR CONTAMINATED SITES, Section PS 3260;

(c) asset retirement obligations are outlined in ASSET RETIREMENT OBLIGATIONS, Section PS 3280;

(d) long-term debt is outlined in LONG-TERM DEBT, Section PS 3230;

(e) financial instruments are outlined in Section PS 3450;

(f) capital lease obligations are outlined in LEASED TANGIBLE CAPITAL ASSETS, Public Sector Guideline (PSG) 2;

(g) public private partnership obligations arising from the financial liability model type of public private partnership arrangement are outlined in PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160;[15]

(h) government transfers are outlined in GOVERNMENT TRANSFERS, PS 3410;[16]

(i) performance obligations are outlined in Section PS 3400; and

(j) externally restricted inflows of financial assets to be used for specific purposes are outlined in Section PS 3100.[17, 18]

.080 (Partial PS 1201.048) Information to describe the nature and terms of an entity's loans payable to other public sector entities includes, at a minimum:

(a) the amounts outstanding;

(b) interest rates;

(c) the amounts payable on demand and within a year;

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15 Section PS 3160 is expected to be included in the PSA Handbook in the first half of 2021.

16 The Introduction to public sector accounting standards specifies that concepts and standards apply to all public sector entities, not only governments, unless otherwise directed or permitted to adopt other concepts and standards. Editorial changes to the various Sections in the PSA Handbook resulting from the changes in the Introduction to public sector accounting standards have yet to be completed. For example, Section PS 3410 applies to transfers received from or provided by a government or any other public sector entity. Section PS 3410 needs to be updated to reflect this.

17 Some entities refer to such liabilities as "unearned revenue".

18 Section PS 3100 applies to all restricted assets and revenues received from non-public sector entities except for trusts under administration and government transfers. Except for these exclusions, all other inflows of financial resources received from non-public sector entities that have external restrictions that specify the purpose or purposes for which resources are to be used fall within the scope of Section PS 3100. For all entities not permitted to or that choose not to apply the PS 4200 series, an externally restricted donation from a non-public sector entity for the purpose of building or buying a tangible capital asset would, for example, be accounted for in accordance with Section PS 3100. Revenue recognition over the useful life of the related asset is not permitted under Section PS 3100. Revenue recognition for government capital transfers to be used over the useful life of a tangible capital asset is only permitted under Section PS 3410. See note 23 below.

(d) appropriate description of amounts payable after one year; and

(e) the existence of sinking fund or redemption provisions.

.081 (New) Financial assets received by an entity from a payor in exchange for goods or services the entity will later provide to the payor tend to be financial liabilities comprising financial performance obligations. These financial performance obligations will be settled through use of financial assets, such as providing services or goods purchased or produced for resale. Revenue recognition occurs as the financial performance obligation is fulfilled by the entity providing the goods and services to the payor in accordance with Section PS 3400.

.082 (New) Unearned revenue generally involves receipt of a prepayment for goods or services to be delivered by the entity to a payor in the future. Most unearned revenue comprises financial performance obligations that are settled and the related revenue earned as the entity fulfills the agreement, contract or other arrangement that gave rise to the receipt of financial assets.

.083 (New) Not all performance obligations will be settled through the use of financial assets. Some performance obligations may be settled through the use of intangibles or tangible capital assets or by the entity using its authority to provide rights to, or access to, a good or service. Performance obligations settled in this manner are classified as non-financial liabilities (e.g., see paragraph PS 1202.086, wireless spectrum licence).

Non-financial liabilities

.084 (New) A **non-financial liability** is a liability that cannot be settled through the use of financial assets but only through the use of non-financial assets or economic resources excluded from recognition in paragraph PS 1202.071. A non-financial liability does not represent a future financial resource requirement. Non-financial liabilities include but are not limited to non-financial performance obligations.

.085 (New) Liabilities classified as non-financial liabilities are primarily of these three types:

(a) liabilities settled through the use of a tangible capital asset acquired through a transfer;[19]

(b) non-financial performance obligation liabilities arising from the user-pay model type of public private partnership arrangements; and

(c) non-financial performance obligation liabilities that will be settled by providing an individual or another entity with a degree of access (simple, exclusive, unrestricted, restricted, shared) to certain rights or resources over the term of the arrangement.[20]

.086 (New) A non-financial liability will not be settled through the use of financial assets, directly or indirectly. The liability is not settled by directly providing financial assets to another party. And, it cannot be considered settled indirectly through the normal operations of the entity,[21] such as

19 Examples may include:

(a) an obligation that may arise in relation to paragraph PS 3410.23(c): "a capital transfer for the purpose of acquiring or developing a tangible capital asset for use in providing services for a defined number of years." When an entity receives the transfer, the initial liability would be a financial liability. The financial liability would then be reclassified to non-financial liabilities as the tangible capital asset is constructed or purchased because the non-financial liability is ultimately satisfied through the use of the tangible capital asset.

(b) an obligation that may arise in relation to paragraph PS 3410.23(d): "a transfer of a tangible capital asset that is to be used to provide services for a defined number of years."

20 There may be overlap between a performance obligation as defined in REVENUE, Section PS 3400, and the type of obligation imposed on a recipient by transfer stipulations, as described in GOVERNMENT TRANSFERS, Section PS 3410. Section PS 3410 was issued before Section PS 3400 introduced the concept of performance obligations into the PSA Handbook. As a result, Section PS 3410 does not refer to performance obligations.

21 This requirement is consistent with the theory underlying performance obligations in REVENUE, paragraph PS 3400.39, which states "Clearly establishing the payor and acknowledging how the performance obligation will be settled, as a result of the consideration promised, will help distinguish the public sector entity's performance obligations to the payor from those responsibilities that result from trying to fulfil its general mandate. For example, a public sector entity may have a general responsibility to enforce safe driving as part of its mandate to move people and goods safely. This responsibility benefits the community as a whole and is not specific to a particular payor who may have entered into an arrangement to receive a driver's licence."

through payment of salaries and benefits to employees or other payments required by normal operations. For example, a non-financial liability may be a performance obligation that is settled by providing another entity with access to certain rights over the term of the arrangement. (See "Example 3 – Wireless spectrum licence," in Appendix C to Section PS 3400.) In this example, any payment of salaries to employees to ensure access to the right, although satisfied indirectly through the use of financial assets, would not impact the classification of the performance obligation as non-financial. The costs to ensure access to the right, are incidental when considering the performance obligation as a whole.

.087 Section PS 3400 requires a public sector entity to identify each distinct good or service promised to a payor at the inception of a transaction. Each distinct good or service has a performance obligation that would be accounted for separately.[22]

(a) If a distinct performance obligation will be primarily settled with financial assets, then it would be classified as a financial liability.

(b) If a distinct performance obligation will be primarily settled through the use of non-financial assets or providing a right to or access to an unrecognized resource, then it would be classified as a non-financial liability.

(c) A distinct performance obligation identified in accordance with Section PS 3400 is not required to be further subdivided for classification purposes.

.088 (New) If the terms of the obligation underlying a non-financial liability are changed to allow settlement through the use of financial assets, this would comprise a new event requiring recognition and may change the classification of the liability from non-financial to financial.

.089 (New) *The statement of financial position should report non-financial liabilities segregated by main classifications, such as those listed in paragraph PS 1202.085.*

.090 (New) *Financial statements should disclose adequate information about the nature and terms of an entity's non-financial liabilities.*

.091 (New) Recognition, measurement and presentation requirements for:

(a) liabilities settled through the use of a tangible capital asset are outlined in Section PS 3410;[23]

(b) liabilities related to a user-pay model in a public private partnership arrangement are outlined in PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160;[24] and

(c) liabilities related to performance obligations are outlined in Section PS 3400.

Net assets or net liabilities

.092 (Partial PS 1201.039) The net assets or net liabilities indicator is the measure of an entity's net financial position. It is a residual amount, calculated as the difference between an entity's assets and its liabilities.

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22 Paragraph PS 3400.31 notes: "A promised good or service may not be distinct when it is highly interrelated to another good or service. In these cases, the public sector entity would combine that good or service with other promised goods or services until the public sector entity identifies a bundle of goods or services that is distinct. This would be accounted for as a single performance obligation."

23 For all entities not permitted to or that choose not to apply the PS 4200 series, a donation received from a non-public sector entity with stipulations to buy or build a tangible capital asset and then use it to provide services over the useful life of the asset is not fully addressed in Section PS 3100 (see note 18 above) and is not addressed at all in Section PS 3410. This situation is only addressed in the PS 4200 series. However, in applying the definition of a non-financial liability, it may be possible to analogize to Section PS 3410 through the GAAP hierarchy in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150. If so, when the entity receives the donation, the initial liability would be a financial liability under Section PS 3100. The financial liability may be reclassified to non-financial liabilities, similar to government transfers, as the tangible capital asset is constructed or purchased provided the obligation to use the tangible capital asset over its useful life meets the definition of a liability.

24 Section 3160 is expected to be included in the PSA Handbook in the first half of 2021, overlapping with this Exposure Draft's comment period.

.093 (New) The net assets or net liabilities indicator is broken down into its components. The components provide information about the nature of the net financial position of the entity.

.094 (New) Information is provided on the statement of financial position identifying the components that make up the net assets or net liabilities of the entity. The components of net assets or net liabilities to be presented on the statement of financial position are only those identified by PSAB. The identification of these components, and the reporting of the balance in each component, links the net financial position indicator to the statement of changes in net assets or net liabilities.

.095 (Partial PS 1201.041) *When reporting on changes in financial position, certain revenues or expenses are required to be initially recognized directly in a component of net assets or net liabilities rather than the surplus or deficit of the period in which they arise. When these requirements apply to an entity, it should report the composition of its net assets or net liabilities at the financial statement date segregated by the following main components:*

(a) accumulated surplus or deficit;

(b) accumulated remeasurement gains and losses; and, if applicable

(c) accumulated other.

.096 (New) Details of the components are set out in “Statement of Changes in Net Assets or Net Liabilities,” starting at paragraph PS 1202.127.

.097 (New) Only those items prescribed in standards are permitted to be recognized directly in accumulated remeasurement gains and losses or, if applicable, accumulated other.

.098 (New) The disclosure of a more detailed breakdown of the net assets or net liabilities components established by PSAB is permitted in the notes if it provides understandable and useful accountability information.

.099 (Partial PS 1201.036) An entity’s net assets or net liabilities position and its net financial assets or net financial liabilities position are indicators that together can be evaluated to determine whether an entity’s financial position has improved or deteriorated.

Statement of net financial assets or net financial liabilities

.100 (New) *The statement of net financial assets or net financial liabilities should report the net financial assets or the net financial liabilities indicator of financial position.*

.101 (Partial PS 1201.037) The net financial assets or net financial liabilities position is calculated as the difference between financial assets and financial liabilities. If the entity’s financial assets exceed its financial liabilities, then the indicator is a net financial asset position. If the entity’s financial liabilities exceed its financial assets, then the indicator is a net financial liabilities position.

.102 (New) *An explanation of the meaning of the net financial assets or net financial liabilities indicator should be included on the statement of net financial assets or net financial liabilities.*

.103 (New) An explanation of the meaning of the indicator allows it to be better understood. The explanation could be as follows:

(a) A net financial asset position indicates that there are net financial assets available to provide services in the future and settle future financial liabilities.

(b) A net financial liabilities position indicates that additional financial assets are required in the future to settle financial liabilities incurred. It represents a lien on future financial assets and affects an entity’s ability to finance its activities, provide services and settle its financial liabilities in the future.

.104 (New) An entity may choose to also provide information about the change in the net financial assets or net financial liabilities position in the period and the reasons for the change. Minimum requirements for presenting this information, if an entity chooses to provide it, are set out in paragraphs PS 1202.152-.153 and PS 1202.188.

Reporting changes in financial position

.105 (New) Users require information to understand why financial position changed as a result of the entity's activities in the period. This total change represents the entity's financial performance for the period as measured in financial statements. It is broken down, presented and explained in financial statements from more than one perspective for accountability and explanatory purposes:

(a) changes in the identified components of the entity's net financial position:

(i) accumulated surplus or deficit;

(ii) accumulated remeasurement gains and losses; and

(iii) changes in any other component of net financial position that PSAB identifies as significant for accountability purposes; and

(b) changes in the cash and cash equivalent resources in the period.

.106 (New and partial PS 1201.033) The statement of operations presents all the revenues and expenses that account for the surplus or deficit of the period. This surplus or deficit explains the change in the accumulated surplus or deficit component for the period. The surplus or deficit of the period is a critical aspect of financial performance that can be reported in financial statements. By default, and unless specified in this or another standard, most changes in an entity's net financial position in the period will be included in the calculation of its surplus or deficit of that period. As a result, the statement of operations provides a lot of the details as to why the entity may or may not have maintained its net assets or net liabilities in the period.

.107 (New and partial PS 1201.033) The statement of changes in net assets or net liabilities presents all the revenues and expenses of the period, including those recognized outside of surplus or deficit of that period. This statement presents the changes in the various components of net assets or net liabilities as a result of the entity's activities in the period. The total of these changes in the components measures the extent to which the entity has maintained its net assets or net liabilities position in the period.

.108 (Partial PS 1201.035) The statement of cash flow presents the sources and uses of cash by category of activity. It presents how an entity financed its activities in the period and met its cash requirements.

.109 (New) To provide more information on the net financial assets or net financial liabilities indicator, entities may choose to present the major reasons for the change in the indicator on the statement of net financial assets or net financial liabilities.

Revenue and expense

.110 (Partial PS 1201.083 and PS 1201.085) *Unless another standard requires otherwise, financial statements should report the gross amounts of revenue and expense.*[25]

.111 (Partial PS 1201.084) Gross revenues are reported to ensure that the total magnitude of an entity's revenue raising is reflected in the financial statements. Such information is necessary for understanding and assessing the financial impact of an entity's revenue raising abilities.

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25 REVENUE, Section PS 3400, and TAX REVENUE, Section PS 3510, are examples of standards that establish when revenue is not to be reported at the gross amount.

(a) Paragraph PS 3400.A40 states: "As an agent, the public sector entity would only recognize the fee or commission earned as revenue, not the full amount of the transaction consideration."

(b) Paragraph PS 3510.44 states: "As foregone revenue, tax concessions do not give rise to assets or expenses of the taxing government. Thus, tax revenue would not be grossed up for the amount of tax concessions. Tax concessions would be netted against the type of tax revenue for which they are providing relief."

.112 (Partial PS 1201.087) Gross expenses are reported to ensure that the total magnitude of an entity's consumption of, or reduction in, economic resources in the period is reflected in the financial statements. Such information is helpful in understanding and assessing the cost of programs and/or services.

Statement of operations

.113 (Partial PS 1201.076) The statement of operations provides important information about an entity's accountability for its operations and the related achievement of its objectives. Neither the statement of operations alone, nor the complete set of financial statements are intended, however, to provide all of the information needed to assess the efficiency and effectiveness of an entity's operations. Such assessments require performance information additional to that provided in the financial statements. Nevertheless, the statement of operations summarizes cost-of-service information at a functional level. The actual-to-budget comparison to be provided on the statement of operations in accordance with paragraph PS 1202.192 also provides information important for assessing whether an entity has achieved its financial plan.

.114 (Partial PS 1201.077) An entity's statement of operations reports the surplus or deficit from an entity's operations in the accounting period. It measures the change in an entity's accumulated surplus or deficit in the period. The statement displays the cost of services (or programs) provided and the revenue recognized for the accounting period and the difference between them.

.115 (New) *An entity should recognize all revenue and expense arising in the period in the statement of surplus or deficit unless a standard requires otherwise.*

.116 (New) Some standards specify circumstances in which an entity recognizes certain revenue and expense outside that period's surplus or deficit.

.117 (Partial PS 1201.078) *The statement of operations should:*

(a) report revenues recognized in this statement segregated by significant type;

(b) report expenses recognized in this statement by function or major program; and

(c) account for the surplus or deficit for the period, which is the difference between the revenues and expenses recognized in the statement of operations.

.118 (PS 1201.079) Information showing the types of revenue is useful for understanding and assessing:

(a) the impact of revenue raising on the economy, if applicable;[26]

(b) the relative contributions of revenue sources; and

(c) the revenue-producing capacity of investments.

Significant revenue types vary but may include corporate tax, personal income taxes, property tax, other tax revenue, user fees, donations, investment revenue, natural resource revenue and government transfers.

.119 (Partial PS 1201.080) A functional or major program display provides information about the purpose of expenses and is useful for understanding the cost of the entity's assets consumed in delivering programs and/or services in the accounting period. Depending on the type of entity, major functions or programs could include health, education, social services, transportation, natural resource development, public protection, research, instruction, acute care, mental health, housing and economic development.

.120 (New) The categorization of expenses by function or major program is a matter of professional judgment and would reflect the operations of the entity.

26 For certain public sector entities, such as governments, their ability to tax, fine, penalize, charge user fees or regulatory fees and so on affects the economy.

.121 (PS 1201.086) *Financial statements should disclose the expenses of the accounting period recognized in the statement of operations by object in the notes or schedules.*

.122 (Partial PS 1201.088) Disclosure of expenses by object provides information that is useful in evaluating the major types of expenses incurred by an entity in the accounting period. This disclosure supports the functional display of expenses provided in the statement of operations by offering a different perspective of the expenses of the period. A display by object outlines the major types of expenses incurred, such as the cost of salaries and benefits, debt servicing costs, the cost of transfer payments to other public sector entities and to the public, as well as the amortization of the cost of tangible capital assets.

.123 (New) When it is not practicable to allocate interest expense to main functions or programs, interest expense may be presented as a separate line item.

Losses arising from asset impairment and changes in valuation allowances

.124 (Partial PS 1201.090) *Losses arising from asset impairment and changes in valuation allowances should be recognized as expenses in the statement of operations in the accounting period in which they arise. However, except as provided in other standards, the change in the value of an asset or liability attributable to a remeasurement gain or loss should be recognized in the accumulated remeasurement gains and losses component and reported in the statement of change in net assets or net liabilities in accordance with paragraph PS 1202.140.*

.125 (Partial PS 1201.089) Except for those related to remeasurements, losses arising from asset impairment and changes in valuation allowances are accounted for in the statement of operations to ensure that these changes in the carrying value of assets are reflected in surplus or deficit for the period.

.126 (Partial PS 1201.091) Changes in valuation allowances are allocated by function on the statement of operations when practicable because information showing the purpose of expenses is useful for understanding the cost of assets consumed in delivering programs and services in the accounting period. When allocation by function is not practicable, however, changes in valuation allowances are reported on the statement of operations as a specific item with the main types of provisions disclosed. The provisions relate to the main classification of financial assets.

Statement of changes in net assets or net liabilities

.127 (New) *The statement of changes in net assets or net liabilities should show a reconciliation between the accumulated balance at the beginning and end of the period for each component of net assets or net liabilities.*

.128 (New) The statement of changes in net assets or net liabilities reports the changes in the accounting period of each component of net assets or net liabilities.

.129 (New) All revenues and expenses arising in the period are reflected in the statement of changes in net assets or net liabilities in one component or another.

.130 (New) An entity may include additional statements or schedules in the financial statements that provide more detail of the changes in a specific component of net assets or net liabilities. In so doing, the statement of changes in net assets or net liabilities would provide summarized reconciliations for each component of net assets or net liabilities that would link to the separate detailed statements or schedules.

.131 (New) If the statement of changes in net assets or net liabilities is too summarized or becomes too complicated, then the changes in different components of net assets or net liabilities would need to be supported by detail in separate statements or schedules. Understandability for accountability purposes would be a key determining factor for whether additional detail is required of the changes in the accounting period related to a component of net assets or net liabilities.

Recognizing revenue and expense outside of surplus or deficit

.132 (New) Decisions to recognize a revenue or expense arising in a period outside that period's surplus or deficit are made only in exceptional circumstances and only by PSAB at the standards level. Extrapolation to other transactions or other events is not permitted.

.133 (New) If PSAB decides that a revenue or expense is to be initially recognized outside of a period's surplus or deficit, it would then determine the following:

(a) the component of net assets or net liabilities the revenue or expense would be initially recognized in (i.e., accumulated remeasurement gains and losses or, if applicable, accumulated other); and

(b) when, or if, it would be subsequently reclassified to a future period's surplus or deficit.

Such decisions would be based on providing better accountability information to the user and would be explained and documented in the applicable standard's basis for conclusions.

.134 (New) Initially recognizing a revenue or expense temporarily outside of surplus or deficit and then subsequently reclassifying it to the surplus or deficit of a future period does not double-count the revenue or expense. The revenue or expense is simply moving from one component of net assets or net liabilities to another. The net effect on net assets or net liabilities is nil.

.135 (New) *Subsequent to initial recognition, reclassifying a revenue or expense from accumulated remeasurement gains or losses or accumulated other to a period's surplus or deficit would not occur if there is no clear and objective basis for identifying:*

(a) the period in which the reclassification should occur; or

(b) the amount that should be reclassified.

.136 (New) *If revenue or expense is permanently reported outside of surplus or deficit, the fact that it is permanent should be presented, either on the statement of changes in net assets or net liabilities, or in the notes.*

.137 (New) Standards specify whether and when amounts previously recognized in accumulated remeasurement gains and losses and, if applicable, accumulated other are reclassified to the statement of operations in a future period(s).

Accumulated surplus or deficit

.138 (New) All entities will have an accumulated surplus or deficit component of net assets or net liabilities. This component represents an accumulation of past surpluses and deficits.

.139 (New) If an entity does not have any transactions or other events required by a standard to be directly recognized in the accumulated remeasurement gains and losses or accumulated other components, the reconciliation between the opening accumulated surplus or deficit and closing accumulated surplus or deficit can either be done on the statement of changes in net assets or net liabilities or on the statement of operations. If an entity chooses to do the reconciliation on the statement of operations, a statement of changes in net assets or net liabilities would not be required.

Accumulated remeasurement gains and losses

.140 (Partial PS 1201.092) *The reconciliation of the accumulated remeasurement gains and losses component should include:*

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

(b) remeasurement gains and losses during the period, distinguishing between:

(i) amounts arising during the period; and

(ii) amounts reclassified during the period to the statement of operations;

(c) any other comprehensive income that arises when an entity includes the results of government business enterprises and business partnerships in its consolidated financial statements; and

(d) the balance of the accumulated remeasurement gains and losses component at the end of the period.[27]

.141 (Partial PS 1201.095 and.096) Government business enterprises or business partnerships may report other comprehensive income in their financial statements.[28] To account for government business enterprises or business partnerships it controls, a reporting entity applies the modified equity method (i.e., the accounting principles of the government business enterprise or business partnership are not adjusted to conform with those of the reporting entity). A reporting entity's proportionate share of this other comprehensive income is reported in the statement of changes in net assets or net liabilities in the accumulated remeasurement gains and losses component.

.142 (New) *Only transactions and other events designated by PSAB in individual standards should be recognized directly in accumulated remeasurement gains and losses.*

Accumulated other

.143 (New) *The reconciliation of the accumulated other component should include:*

(a) the balance of the accumulated other component at the beginning of the period;

(b) transactions and other events affecting the accumulated other component balance during the period, distinguishing between:

(i) amounts arising during the period; and

(ii) amounts reclassified during the period to the statement of operations; and

(c) the balance of the accumulated other component at the end of the period.

.144 (New) *Only transactions and other events designated by PSAB in individual standards should be recognized directly in accumulated other.*

.145 (New) As transactions and other events are reflected in this component of net assets or net liabilities by PSAB, this Section will be updated.

Share capital

.146 (New) Although rare, some public sector entities do have issued share capital. It is important to distinguish issued share capital from other economic obligations (e.g., government transfers or loans).

.147 (New) *When an entity has issued share capital, it should report it as a separate component of net assets or net liabilities on the statement of financial position and in the statement of changes in net assets or net liabilities.*

.148 (New) *Any changes in the issued share capital component in the period should be recognized in that component. The details of the changes in the issued share capital component in the period should:*

(a) be reported on the statement of changes in net assets or net liabilities; and

(b) explain the change between the opening and ending balances of the share capital component.

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27 If PSAB approves the addition of new FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.094A, proposed in Exposure Draft, "Financial Instruments: Foreign Exchange Narrow-scope Amendments," a similar paragraph would be included in proposed Section PS 1202.

28 Because a government business enterprise or business partnership carries on a business, its financial statements must adhere to the standards applicable to publicly accountable enterprises in the CPA Canada Handbook – Accounting. As a result, government business enterprises or business partnerships may report other comprehensive income in their financial statements.

.149 (New) *The reconciliation of the issued share capital component should include:*

- *(a) the balance of the issued share capital component at the beginning of the period;*
- *(b) transactions and other events affecting the issued share capital component balance during the period; and*
- *(c) the balance of the issued share capital component at the end of the period.*

.150 (New) *When an entity has issued share capital, it should disclose the following in the notes:*

- *(a) the number of shares authorized and issued;*
- *(b) the par value per share; and*
- *(c) a description of the nature of each type of issued share capital.*

Retroactive application of accounting changes

.151 (New) *The statement of changes in net assets or net liabilities should include the effects of retroactive application in accordance with ACCOUNTING CHANGES, Section PS 2120, for each component of net assets or net liabilities.*

Option to report the reasons for the change in net financial assets or net financial liabilities

.152 (New) An entity has the option to report the change in net financial assets or net financial liabilities and the reason for that change. The change and the reasons for it would be presented on the statement of net financial assets or net financial liabilities, as long as the information presented is understandable and useful for accountability purposes. Such presentation provides information on the net financial assets or net financial liabilities indicator in one statement.

.153 (Partial PS 1201.099 and .100) *If an entity chooses to report the change in net financial assets or net financial liabilities, it should present the following on its statement of net financial assets or net financial liabilities:*

- *(a) net financial assets or net financial liabilities at both the beginning and end of the accounting period for the current and prior periods;*
- *(b) the extent to which net financial assets or net financial liabilities changed due to net remeasurement gains and losses in the accounting period;*[29]
- *(c) the acquisition of tangible capital assets in the accounting period; and*
- *(d) any other significant items, such as significant expenditures, that explain the change in net financial assets or net financial liabilities in the period.*

Statement of cash flow

.154 (PS 1201.104) Cash comprises cash on hand and demand deposits.

.155 (Partial PS 1201.105) 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 changes in value.

.156 (Partial PS 1201.105) Cash equivalents are held for 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 of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.

.157 (Partial PS 1201.105) When bank overdrafts, which are repayable on demand, form an integral part of an entity's cash management, such that the entity's bank balance often fluctuates from being positive to overdrawn, bank overdrafts are included as a component of cash and cash equivalents.

29 An entity may present the remeasurement impact of derivatives separately if it wishes to do so.

.158 (PS 1201.107) *The statement of cash flow should report how an entity generated and used cash and cash equivalents in the accounting period and the change in cash and cash equivalents in the period. The statement of cash flow should report the cash and cash equivalents at both the beginning and end of the accounting period.*

.159 (PS 1201.108) *The statement of cash flow should report cash flows during the period classified by operating, capital, investing and financing activities.*

.160 (PS 1201.109) The information provided in a statement of cash flow would focus on the effects of an entity's activities on its cash resources. Cash and cash equivalents represent a pool of cash or ready sources of cash available to an entity.

.161 (PS 1201.110) The change in an entity's cash resources are explained in the context of four major activities — operations, capital, investing and financing.

.162 (New) Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the entity and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among those activities.

.163 (New) A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and principal, the interest element may be classified as an operating activity and the principal element is classified as a financing activity.

.164 (New) The amount of cash flows arising from operating activities is a key indicator of the extent to which:

(a) the operations of the entity are funded; and

(b) sufficient cash flows have been generated to maintain the operating capability of the entity, repay loans and make new investments without recourse to external sources of financing.

.165 (New) Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

.166 (Partial PS 1201.111) An entity may report cash flows from operating activities using either the direct method or the indirect method.

.167 (PS 1201.112) Using the direct method, the major classes of gross cash receipts and gross cash payments related to operating activities are reported, such as:

(a) cash receipts from taxation;

(b) cash receipts from donations;

(c) cash receipts from user fees, licences, permits, fines, penalties and other fees;

(d) cash receipts from the sale of goods and the rendering of services;

(e) cash receipts from enterprises;

(f) cash receipts from dividends;

(g) cash transfers to/from other public sector entities;

(h) cash transfers to individuals;

(i) cash payments to suppliers;

(j) cash payments to and on behalf of employees; and

(k) cash receipts and payments of interest included in the determination of results for the accounting period.[30]

30 TANGIBLE CAPITAL ASSETS, Section PS 3150, permits the cost of a tangible capital asset that is acquired, constructed or developed over time to include carrying costs directly attributable to the acquisition, construction or development activity, such as interest costs when the entity's policy is to capitalize interest costs. When an entity's policy is to capitalize interest costs, these interest costs would be part of capital activities, not operating activities.

.168 (Partial PS 1201.113) Using the indirect method, cash used in or available from operations would be calculated by adjusting the surplus or deficit for the accounting period for the effects of non-cash items included in the surplus or deficit and for any accruals of past or future operating cash receipts or payments. Examples of non-cash items include:

(a) amortization of tangible capital assets;

(b) draw-downs of prepayments;

(c) pension expenses not funded in the period; and

(d) gains and losses on disposals of tangible capital assets.

.169 (Partial PS 1201.114) Cash flows relating to interest and dividends received and interest paid and included in the determination of the surplus or deficit for the accounting period would be classified as cash flows from operating activities.

.170 (PS 1201.115) *When an entity applies the indirect method and there is a significant difference between the interest revenue or expense recognized in the statement of operations and the interest receipt or payment recognized in the cash flow statement, the financial statements should disclose the amount of the difference and the reason(s) for it.*

.171 (PS 1201.116) Cash receipts and outflows relating to tangible capital assets are included in capital activities for a public sector entity, in contrast with a business, which shows such cash flows as investing activities. This additional category for a public sector entity reflects the fact that cash flows from investing activities are supposed to represent expenditures made to acquire assets that will generate future income and cash inflows. Most tangible capital assets have future service potential, rather than future cash inflows associated with them. Examples include:

(a) cash paid on acquisition of tangible capital assets; and

(b) cash received on disposal of tangible capital assets.

Under the indirect method, adjustments for gains and losses arising on the sale of tangible capital assets would be adjusted for in the calculation of cash flows from operating activities.

.172 (New) The separate reporting of cash flows used in investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future revenue and cash flows.

.173 (PS 1201.117) Cash flow information related to investing would include investments made and realized during the period.

.174 (New) The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by debt providers.

.175 (PS 1201.118) Cash flow information related to financing would include both domestic and foreign debt issued and repaid during the period.

.176 (New) *If an entity enters into financing activities, the statement of cash flow should account for the net cash available to be used for financing activities or the net cash needed to be generated by financing activities. This amount is determined by combining the opening cash balance with the net cash flows provided from or required by all of the operating, capital and investing activities of the entity.*

.177 (New) Highlighting net cash before financing activities after all other categories of inflows and outflows of cash for the period are totalled and presented shows whether all of an entity's other activities combined resulted in the need for cash to be raised through financing activities or not. This presentation highlights one aspect of the entity's fiscal sustainability.

.178 (PS 1201.119) *The statement of cash flow should report separately major classes of gross cash receipts and gross cash payments arising from capital, investing and financing activities, except to the extent that cash flows described in paragraphs PS 1202.179-.180 are presented on a net basis.*

.179 (PS 1201.120) *Cash flows arising from each of the following operating, capital, investing or financing activities may be presented on a net basis:*

(a) cash receipts collected and payments made on behalf of entities external to the reporting entity, including taxpayers and beneficiaries, when the cash flows reflect the activities of the external party rather than those of the reporting entity; and

(b) cash receipts and payments for items for which the turnover is rapid, the amounts are large and the maturities are short.

.180 (PS 1201.121) *Cash flows arising from interest paid on debt issued on behalf of government business enterprises and interest received from those government business enterprises should be presented on a net basis when the debt meets the criteria in* LONG-TERM DEBT, *paragraph PS 3230.12.*

.181 (PS 1201.122) Examples of the exclusion in paragraph PS 1202.179(a) include:

(a) taxes collected by a government on behalf of another level of government (see TAX REVENUE, Section PS 3510), not including taxes collected by a government for its own use as part of a tax-sharing arrangement;

(b) funds held for parties external to the reporting entity by a government organization that is an investment or trust entity; and

(c) rents collected by a government organization on behalf of, and paid over to, owners of property that are external to the reporting entity.

.182 (PS 1201.123) Examples of the exclusion in paragraph PS 1202.179(b) include cash advances and repayments related to:

(a) the purchase and sale of investments; and

(b) other short-term borrowings (e.g., those that have a maturity period of three months or less).

.183 (PS 1201.124) *Capital, investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from the statement of cash flow. Such transactions should be disclosed in the financial statements in a way that provides all the relevant information about these capital, investing and financing activities.*

.184 (PS 1201.125) Many capital, investing and financing activities do not have a direct impact on current cash flows, although they do affect the assets and liabilities of an entity. For example, acquisitions of assets by assuming directly related liabilities affect the assets and liabilities of an entity but may have no cash flow impact in the current period. The exclusion of non-cash transactions from the statement of cash flow is consistent with the objective of a cash flow statement, as these items do not involve sources or uses of cash in the current period.

.185 (Partial PS 1201.126) *The financial statements should present:*

(a) the components of cash and cash equivalents; and

(b) the reconciliation of the amounts of cash and cash equivalents in the statement of cash flow with the equivalent items presented in the statement of financial position,

either on the statement of cash flow or in the notes. An entity should disclose the policy it adopts in determining the composition of cash and cash equivalents.

Comparing actual financial performance to that budgeted

.186 (Partial PS 1201.130) *The statement of operations should present a comparison of the actual financial performance of the accounting period with that originally budgeted.*

.187 (New and partial PS 1201.127 and .129) The comparison of actual financial performance with that budgeted is a fundamental component of the financial accountability cycle as it forms the basis for closing the accountability cycle. The comparison of actual and budgeted financial performance provides key accountability information about the entity's performance in achieving its plans. Such comparison also serves as a starting point for understanding and assessing trends in operations as well as for identifying variances that need to be explained.

.188 (Partial PS 1201.131) *If an entity reports the change in net financial assets or net financial liabilities on the statement of net financial assets or net financial liabilities, the statement should present a comparison of the items that comprise the change in net financial assets or net financial liabilities for the accounting period, as well as the change in net financial assets or net financial liabilities for the period, with the figures originally budgeted. A comparison to budget is not required for remeasurement amounts.*

.189 (New) *If an entity chooses not to report the change in net financial assets or net financial liabilities, it then should disclose in the notes a comparison of the total actual capital expenditures incurred in the period with those originally budgeted. The budgeted capital expenditures disclosed should follow the same accounting principles, be for the same scope of activities and use the same classifications as the actual capital expenditure amounts disclosed.*

.190 (New) The original budget is the budget that was approved by the appropriate authority, generally at or near the beginning of the accounting period. It is the budget for which an entity is held accountable.

.191 (New) The appropriate authority may be the council, the board of directors, the controlling entity (e.g., the government) or the legislature. For certain entities, there may be multiple authorities that approve the budget. For example, for some government organizations, both the board of directors and a government ministry approve the budget. In such cases, if approval is only provided by one of the authorities (e.g., the board of directors), the budget approved by that authority would be presented on the financial statements with a note indicating that the other authority (e.g., the government ministry) has not approved the budget. If all required authorities approve a budget, that budget would be presented in the financial statements with no note.

.192 (Partial PS 1201.130) *The budget amounts on the financial statements should be presented: using the same basis of accounting, following the same accounting principles, for the same scope of activities, and using the same classifications as the actual amounts.*

.193 (New) The actual-to-budget comparison is meaningful when the budget:

(a) is prepared on the same basis of accounting (i.e., accrual accounting),

(b) follows the same accounting principles (i.e., the standards in the PSA Handbook),

(c) is for the same scope of activities (i.e., includes all components, where applicable, and all controlled entities) and

(d) uses the same classification (i.e., revenue by type and expenses by function or major program)

as the financial statements. Accountability is best achieved when those to whom an entity is accountable understand the financial information provided to them. If the actual and budget amounts are prepared in the same manner, comparing the actual financial performance to that budgeted is easier to understand.

.194 (New) When the basis of accounting, accounting principles, scope[31] or classification used in the budget is different from 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 statement of operations. Note disclosure or a schedule would reconcile the restated budget numbers back to those approved in the original budget.

31 The scope of the budget would be considered different from the scope of the financial statements if a material entity or program is not included in the reporting entity's approved budget.

.195 (New) When the scope of the reporting entity changes during the accounting period, the original approved budget would be presented on the statement of operations.

When a budget is not prepared or approved

.196 (New) *When budget information is not prepared or approved, an acknowledgment stating this fact should be presented:*

(a) on the statement of operations in relation to surplus or deficit; and

(b) on the statement of net financial assets or net financial liabilities in relation to the change in net financial assets or net financial liabilities if such change is presented; or

(c) in the notes in relation to capital expenditures if the change in net financial assets or net financial liabilities is not presented.

This acknowledgment should also explain why the actual-to-budget comparison could not be done. The budget is an important aspect of the accountability cycle. As a result, it is important to indicate when the budget is not prepared or approved.

.197 (New) If a reporting entity does not have an approved budget for a controlled entity, and that controlled entity is material to the reporting entity, the reporting entity is not considered to have an approved budget for the consolidated reporting entity for financial statement purposes. In such cases, a complete actual-to-budget comparison cannot be presented. A note would be required on the face of the statement of operations, and on the statement of net financial assets or net financial liabilities if the change in this indicator is presented, explaining why an actual-to-budget comparison cannot be presented for the entire reporting entity.

Use of an amended budget

.198 (New) An amended budget would only be presented for actual-to-budget comparison purposes in circumstances in which the public has chosen a change in governance and that new governing body has approved an amended budget.

(a) (New) An amended approved budget may be presented for actual-to-budget comparison purposes by a government only when there is an election and the newly elected government prepares a new budget that is approved by the legislature, council or other equivalent appropriate authority.[32] The new government would determine if presenting the new amended approved budget or the original approved budget in its financial statements for comparison purposes would best serve the accountability objective. The amended approved budget of a new government may affect the budgets of its controlled entities.

(b) (New) An amended approved budget may be presented for actual-to-budget comparison purposes by a government organization only when the majority of its governing body has been newly elected or appointed and it approves a new budget.[33] The governing body would determine if presenting the new amended approved budget or the original approved budget in its financial statements for comparison purposes would best serve the accountability objective. However, for the controlling government, in the absence of an election of a new government and consequent new consolidated approved budget, the approval of a new amended approved budget by a controlled entity would be considered only a plan amendment for the controlling government. Therefore, the new amended approved budget of a controlled entity would not affect the consolidated budget used for comparison purposes in a government's consolidated financial statements.

32 A newly elected government is the government that is elected after an election. Such a government could be from the same party as the government that existed before the election.

33 To be presented as a newly approved amended budget for comparison with actual amounts in the financial statements, paragraph PS 1202.191 would be considered in determining if a new amended budget has been approved by the required authorities.

.199 (New) An amended budget is different from forecasts updated over the course of the year. An amended budget must be approved by the appropriate authority or authorities. This is the crucial distinction between a budget (original or amended) and a forecast updated over the course of the year.

.200 (New) *The use of an amended budget rather than the original budget should be disclosed. The reasoning for using the amended budget should also be disclosed.*

.201 (New) Capital budgets may include multi-year projects. In such situations, the original approved budget, prepared multiple years ago, may not be the most appropriate budget to present for comparison purposes with actual capital expenditures in the period. If in-year estimated capital expenditures are approved, the use of this budget may best serve the accountability objective for the year in terms of acquisitions and understandable actual-to-budget comparisons.

Disclosing non-compliance with financial authorities

.202 (PS 1201.134) Users look to financial statements to determine whether the economic resources entrusted to a public sector entity were administered in accordance with financial authorities.

.203 (Partial PS 1201.135) *Financial statements should disclose information that highlights when an entity's expenses, expenditures, revenue, borrowing and investing activities were not carried out within the limits authorized by the financial authorities.*

.204 (PS 1201.137) This disclosure would be provided in schedules or notes to the financial statements.

Disclosing risks and uncertainties

.205 (New) *Financial statements should disclose information about the risks and uncertainties that could affect an entity's financial position or changes in financial position.*

.206 (New) Financial statements that are comprehensive and respond to the accountability objective require the disclosure of the risks and uncertainties that could affect an entity's financial position or changes in financial position. Individual standards set out the disclosure requirements for various risks and uncertainties.

IMPORTANCE OF NOTES AND SCHEDULES

.207 (Partial PS 1201.008) Notes and schedules are integral to the financial statements. They clarify and explain items, transactions and other events recognized and reported on the face of the financial statements. They are cross-referenced to the specific items to which they relate on the face of the financial statements. Chapter 10, "Presentation Concepts for Financial Statements," of the Conceptual Framework, sets out concepts fundamental to selecting, locating and organizing relevant and understandable disclosure in the notes and schedules.

.208 (Partial PS 1201.007) *The notes and schedules should be clearly identified.*

.209 (New) *Notes should, as far as practicable, be presented in a systematic manner. In determining a systematic manner, consideration should be given to the understandability of the financial statements.*

.210 (New) DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100, sets out requirements for the disclosure of accounting policies in the notes.

.211 (PS 1201.009) Some entities include references to information provided in other separate reports to help users find additional information about specific financial statement items. Those other reports are not a part of the financial statements. References to them need to be distinguished clearly from references to notes and schedules integral to the financial statements.

.212 (PS 1201.010) *Notes and schedules should not be used as a substitute for the proper recognition and/or measurement of an item, transaction or other event.*

REPORTING ON FUNDS AND RESERVES

.213 (PS 1201.138) Funds and reserves would be disclosed in accordance with FUNDS AND RESERVES, PSG-4.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.214 (New) This Section applies for fiscal years beginning on or after April 1, 2024. Earlier adoption is permitted. This Section is to be applied retroactively with restatement of prior periods.

APPENDICES: ILLUSTRATIVE FINANCIAL STATEMENTS

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The examples in the above-noted appendices are illustrative only, and matters of principle relating to particular situations should be decided in the context of the Section.

The examples are not intended to indicate a preferred format or preferred terminology, as variations in format and wording will be necessary to meet the requirements of differing circumstances.

For ease of presentation, selections are made from accounting alternatives permitted in the PSA Handbook.

The examples in the appendices reflect the standards in the PSA Handbook as of September 2020 (including those issued but not yet effective).

Although PSAB has not designated any transactions or other events for recognition in the accumulated other component of net assets or net liabilities, this component was added in the illustrations to show how PSAB is responsive to the feedback and the needs of the users.

The illustrations show a possible presentation option for endowments. This is just an example. It is included to show stakeholders that the proposed model would provide PSAB with a new alternative to consider to report the substance of endowment contributions. Extrapolating from this illustration or any Board decision to recognize a revenue or an expense directly in a component of net assets or net liabilities, to items not already identified for direct recognition in net assets or net liabilities by PSAB in a standard, would not be permitted.

The examples related to government not-for-profit organizations (GNFPOs), such as those included in Appendix D or E, do not preclude a GNFPO from continuing to follow the requirements in the PS 4200 series of the PSA Handbook. However, in the future, through its Government Not-for-Profit Strategy project, PSAB may decide to remove and/or amend some or all of the Sections in the PS 4200 series.

APPENDIX A
ILLUSTRATIVE FINANCIAL STATEMENTS – SENIOR GOVERNMENTS

Senior Government
Statement of Financial Position
As at March 31 ($ millions)

	Actual 20X3		Actual 20X2
ASSETS			
Financial assets			
Cash and cash equivalents	1,087		2,876
Accounts and accrued interest receivable	1,864		1,708
Portfolio investments	2,244		1,331
Derivatives	35		-
Investment in government business enterprises	336		207
Loans	4,909		5,659
Inventories for resale	109		135
	10,584		11,916
Non-financial assets			
Tangible capital assets	8,218		8,215
Inventories of supplies and prepaid expenses	142		242
Investments that cannot be used to settle a financial liability or spend on future operations	10	[1]	-
	8,370		8,457
TOTAL ASSETS	18,954		20,373
LIABILITIES			
Financial liabilities			
Accounts payable and accrued liabilities	2,383		2,644
Derivatives	10		105
Debt	10,398		9,796
Pension liabilities	4,813		4,890
Other accrued liabilities	1,395		1,510
Unearned revenue	308		331
Transfers to acquire tangible capital assets	1,500	[2]	1,510
	20,807		20,786
Non-financial liabilities			
Transfers to use tangible capital assets in service delivery	1,000	[2]	1,000
Public private partnership obligation (user-pay model)[3]	-		-
TOTAL LIABILITIES	21,807		21,786
Net assets (net liabilities)	(2,853)		(1,413)
Net assets (net liabilities) components:			
Accumulated deficit	(2,990)		(1,366)
Accumulated remeasurement gains and losses	127		(47)
Accumulated other	10	[4]	-
	(2,853)		(1,413)

1 The amount represents cash received that is similar to an endowment: the endowed amount is restricted in perpetuity. If the endowed amount is restricted in perpetuity, it cannot be used to settle financial liabilities or spend on future operations. As a result, it does not meet the definition of a financial asset.

2 Capital transfers received may be recognized as liabilities until the related asset is bought or built or, alternatively, as the related asset is used as allowed by GOVERNMENT TRANSFERS, Section PS 3410.

If an entity determines that a capital transfer received is only a liability until the related asset is bought or built, then it would recognize the liability as a financial liability. Revenue recognition would occur as the related asset is bought or built.

If an entity determines that a capital transfer received is a liability until the related asset is used to provide services, then the initial liability is a financial liability. That financial liability then becomes a non-financial liability as the asset is constructed or purchased. Revenue recognition would occur as the related asset is used to provide services.

3 This category (user-pay model) refers to a type of public private partnership arrangement where the private sector partner designs, builds, finances, operates and/or maintains infrastructure for the public sector entity in exchange for a right to charge end-users. The public sector entity compensates the private sector partner by granting rights to earn revenue from third-party users or access to another revenue-generating asset. This type of liability is introduced in Exposure Draft, "Public Private Partnerships." This liability is being reflected in the statement to highlight this new type of liability that might arise if PSAB approves the public private partnerships standard.

The Exposure Draft, "Public Private Partnerships," also introduces a public private partnership obligation related to the financial liability model. Under such model, the entity has an obligation to deliver cash or another financial asset. This type of liability would be considered a financial liability and would be reflected as such on the statement of financial position.

4 The amount represents the credit entry for cash received that is similar to an endowment: the endowed amount is restricted in perpetuity. Based on the review of the transaction, one recognition option that would be available to PSAB under the new model, which is not available in the current model, would be to reflect the amount directly in a component of net assets or net liabilities. The Board would choose such an option if it concluded that such presentation better served the accountability objective of financial reporting. NOTE: This illustrative transaction does not presuppose that in the future the Board will develop a standard that will allow endowments to be reflected directly in net assets or net liabilities. Such a conclusion can be reached only after following the due process and conducting the appropriate research. The intent of the illustration is to show that with the proposed model, the Board would have a new alternative to consider when resolving standards-level issues, in such a way that the presentation would reflect the substance of the transaction and provide improved accountability information. CONTRIBUTIONS – REVENUE RECOGNITION, paragraph PS 4210.29, states that under the deferral method, endowment contributions are recognized as direct increases in net assets. This Section does not apply to governments. However, it is a Section in the existing PSA Handbook that the Board could look at when developing an endowment standard for all public sector entities.

Senior Government
Statement of Net Financial Liabilities[1]
As at March 31 ($ millions)

	Actual 20X3	Actual 20X2
Financial assets	10,584	11,916
Less: Financial liabilities	20,807	20,786
Net financial liabilities	(10,223)	(8,870)

A net financial liabilities position indicates that additional financial assets are required in the future to settle the financial liabilities incurred. A net financial liabilities position represents a lien on future financial assets and affects the government's ability to finance activities, provide services and settle financial liabilities in the future. Alternatively, a net financial assets position indicates that there are net financial assets available to provide services in the future and meet future financial liabilities.

1 When the indicator is a positive number, the statement would be called a statement of net financial assets.

OPTION: An entity may choose to explain the change in the net financial assets or net financial liabilities indicator. The change would be explained on this statement. When the change in the indicator is shown, the statement could be called a statement of net financial liabilities (or net financial assets) and change in net financial liabilities (or net financial assets). Refer to Appendix F for a possible way to explain the change in the indicator.

Senior Government
Statement of Operations
For the year ended March 31 ($ millions)

	Budget 20X3	Actual 20X3	Actual 20X2
Revenues			
Income taxes	8,034	8,628	9,503
Other taxes	2,721	2,976	3,083
Non-renewable resource revenue	660	770	705
Government transfers	1,295	1,335	1,183
Revenue from exchange transactions	427	485	465
Net income from government business enterprises	50	525	97
Net investment income	409	610	747
Premiums, permits, fees, fines and licences	581	651	669
Miscellaneous revenue	100	342	402
	14,277	16,322	16,854
Expenses (by function)			
Health	4,541	6,626	4,457
Education	4,221	4,287	4,168
Social services	1,654	2,701	1,709
Transportation and utilities	626	823	807
Agriculture, environment and development	1,706	1,856	1,740
Justice	468	487	462
Recreation and culture	281	272	217
General government	551	627	560
Interest expense	201	267	183
	14,249	17,946	14,303
Surplus (Deficit)	28	(1,624)	2,551

NOTE: When it is not practicable to allocate interest expense to programs or functions, a public sector entity can present interest expense as a separate line item. The same applies to valuation allowances.

Senior Government
Statement of Changes in Net Assets (Net Liabilities)
For the year ended March 31 ($ millions)

	Actual 20X3	Actual 20X2
Accumulated deficit		
(Deficit) Surplus for the period	(1,624)	2,551
Opening balance	(1,366)	(3,917)
Closing balance	(2,990)	(1,366)
Accumulated remeasurement gains and losses[1]		
Unrealized gains (losses) attributable to:		
Foreign exchange	(35)	-
Derivatives	130	(105)
Portfolio investments	54	108
Financial instruments designated to the fair value category	-	-
Less: Amounts reclassified to surplus or deficit in current period		
Net realized (gains) losses on portfolio investments	20	(50)
Other comprehensive income of:		
Government business enterprise/partnership	5	-
Net change in accumulated remeasurement gains and losses	174	(47)
Opening balance	(47)	-
Closing balance	127	(47)
Accumulated other		
Other revenue and expense recognized directly in net assets (net liabilities)	10 [2]	-
Less: Other revenue and expense reclassified to surplus or deficit	-	-
Net change in accumulated other	10	-
Opening balance	-	-
Closing balance	10	-
Total net assets (net liabilities)	(2,853)	(1,413)

1 This section of the statement is based on the requirements in FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450. PSAB is considering narrow scope amendments to these standards. The illustration is not meant to presume Board conclusions on these standards. As requirements change, the illustration will be updated.

2 Refer to note 4 on the statement of financial position.

NOTE: If this statement becomes complex, an entity could include some of the information in additional statements, such as a statement of remeasurement gains and losses, or in a schedule to the financial statements. The purpose of these additional statements or schedules would be to show the details related to changes in a component of net assets or net liabilities. The statement of changes in net assets or net liabilities would then become a summary statement.

Senior Government
Statement of Cash Flow
For the year ended March 31 ($ millions)

	Actual 20X3	Actual 20X2
Cash and cash equivalents at the beginning of period	2,876	2,647
Operating transactions		
(Deficit) Surplus	(1,624)	2,551
Non-cash revenue and expense items included in surplus (Note X)	499	522
Items included in surplus that relate to capital, investing or financing activities (Note Y)	(1,652)	(327)
Cash (applied to) provided by operating transactions	(2,777)	2,746
Capital transactions		
Capital transfers received	495	400
Proceeds on sale of tangible capital assets	46	72
Cash used to acquire tangible capital assets	(294)	(250)
Cash provided by capital transactions	247	222
Investing transactions		
Proceeds from disposals and redemptions of portfolio investments	262	2,997
Proceeds from loans	768	1,129
Portfolio investments purchased	(594)	(4,089)
Loans provided	(290)	(280)
Other	(17)	(15)
Cash provided by (applied to) investing transactions	129	(258)
Net cash (applied to) provided by operating, capital and investing activities	(2,401)	2,710
Net cash before financing transactions	475	5,357
Financing transactions	-	-
Public debt issues	15,361	3,694
Public debt retirement	(14,759)	(6,175)
Contribution from third party	10	-
Cash provided by (applied to) financing transactions	612	(2,481)
Cash and cash equivalents at end of period	1,087	2,876

NOTE: The indirect method is used for illustrative purposes only. Both the indirect and the direct methods are allowed to report cash flow from operations.

APPENDIX B
ILLUSTRATIVE FINANCIAL STATEMENTS – LOCAL GOVERNMENTS

Local Government
Statement of Net Financial Position
As at March 31 ($ thousands)

	Actual 20X3		Actual 20X2
ASSETS			
Financial assets			
Cash and cash equivalents	1,587		1,366
Accounts and accrued interest receivable	1,864		1,708
Portfolio investments	7,153		6,990
Investment in government business enterprises	336		207
Inventories for resale	109		135
	11,049		10,406
Non-financial assets			
Tangible capital assets	87,218		97,215
Inventories of supplies and prepaid expenses	142		242
Investments that cannot be used to settle a financial liability or spend on future operations	10	1	-
	87,370		97,457
TOTAL ASSETS	98,419		107,863
LIABILITIES			
Financial liabilities			
Accounts payable and accrued liabilities	2,383		2,644
Debt	9,363		9,796
Employee benefits	4,813		4,890
Other accrued liabilities	1,203		1,291
Unearned revenue (restricted contributions)	500		550
	18,262		19,171
Non-financial liabilities			
Public private partnership obligation (user-pay model)[2]	-		-
TOTAL LIABILITIES	18,262		19,171
Net assets (net liabilities)	80,157		88,692
Net assets (net liabilities) components:			
Accumulated surplus	80,010		88,634
Accumulated remeasurement gains and losses	137		58
Accumulated other	10	3	-
	80,157		88,692

1 The amount represents cash received that is similar to an endowment: the endowed amount is restricted in perpetuity. If the endowed amount is restricted in perpetuity, it cannot be used to settle financial liabilities or spend on future operations. As a result, it does not meet the definition of a financial asset.

2 This category (user-pay model) refers to a type of public private partnership arrangement where the private sector partner designs, builds, finances, operates and/or maintains infrastructure for the public sector entity in exchange for a right to charge end-users. The public sector entity compensates the private sector partner by granting rights to earn revenue from third-party users or access to another revenue-generating asset. This type of liability is introduced in Exposure Draft, "Public Private Partnerships." This liability is being reflected in the statement to highlight this new type of liability that might arise if PSAB approves the public private partnerships standard.

The Exposure Draft, "Public Private Partnerships," also introduces a public private partnership obligations related to the financial liability model. Under such model, the entity has an obligation to deliver cash or another financial asset. This type of liability would be considered a financial liability and would be reflected as such on the statement of financial position.

3 The amount represents the credit entry for cash received that is similar to an endowment: the endowed amount is restricted in perpetuity. Based on the review of the transaction, one recognition option that would be available to PSAB under the new model, which is not available in the current model, would be to reflect the amount directly in a component of net assets or net liabilities. The Board would choose such an option if it concluded that such presentation better served the accountability objective of financial reporting.

NOTE: This illustrative transaction does not presuppose that in the future the Board will develop a standard that will allow endowments to be reflected directly in net assets or net liabilities. Such a conclusion can be reached only after following the due process and conducting the appropriate research. The intent of the illustration is to show that with the proposed model, the Board would have a new alternative to consider when resolving standards-level issues, in such a way that the presentation would reflect the substance of the transaction and provide improved accountability information. CONTRIBUTIONS – REVENUE RECOGNITION, paragraph PS 4210.29, states that under the deferral method, endowment contributions are recognized as direct increases in net assets. This Section does not apply to governments. However, it is a Section in the existing PSA Handbook that the Board could look at when developing an endowment standard for all public sector entities.

Local Government
Statement of Net Financial Liabilities[1]
As at March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Financial assets	11,049	10,406
Less: Financial liabilities	18,262	19,171
Net financial liabilities	(7,213)	(8,765)

A net financial liabilities position indicates that additional financial assets are required in the future to settle the financial liabilities incurred. A net financial liabilities position represents a lien on future financial assets and affects the government's ability to finance activities, provide services and settle financial liabilities in the future. Alternatively, a net financial assets position indicates that there are net financial assets available to provide services in the future and meet future financial liabilities.

1 When the indicator is a positive number, the statement would be called a statement of net financial assets.

OPTION: An entity may choose to explain the change in the net financial assets or net financial liabilities indicator. The change would be explained on this statement. When the change in the indicator is shown, the statement could be called a statement of net financial liabilities (or net financial assets) and change in net financial liabilities (or net financial assets). Refer to Appendix F for a possible way to explain the change in the indicator.

Local Government
Statement of Operations
For the year ended March 31 ($ thousands)

	Budget 20X3	Actual 20X3	Actual 20X2
Revenues			
Property taxes	8,034	8,628	9,503
User fees	3,381	3,746	3,788
Government transfers	1,722	1,820	1,648
Net income from government business enterprises	50	525	97
Net investment income	409	610	747
Premiums, permits, fees, fines and licences	581	651	669
Miscellaneous revenue	100	342	402
	14,277	16,322	16,854
Expenses (by function)			
Protection to persons and property	4,329	4,061	3,938
Water and sewage	8,541	8,626	8,457
Roadways and transportation	7,360	7,557	7,449
Recreation and culture	3,094	3,310	3,269
General government	832	899	777
Other	93	493	413
	24,249	24,946	24,303
Deficit	(9,972)	(8,624)	(7,449)

NOTE: Interest expense and valuation allowances have been allocated by function. However, when it is not practicable to do so, an entity can present interest expense and/or valuation allowances as separate line items.

Statement of Changes in Net Assets (Net Liabilities)
For the year ended March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Accumulated surplus		
Deficit for the period	(8,624)	(7,449)
Opening balance	88,634	96,083
Closing balance	80,010	88,634
Accumulated remeasurement gains and losses[1]		
Unrealized gains (losses) attributable to:		
Portfolio investments	54	108
Financial instruments designated to the fair value category	-	-
Less: Amounts reclassified to deficit		
Net realized (gains) losses on portfolio investments	20	(50)
Other comprehensive income of:		
Government business enterprise/partnership	5	-
Net change in accumulated remeasurement gains and losses	79	58
Opening balance	58	-
Closing balance	137	58
Accumulated other		
Other revenue and expense recognized directly in net assets	10 [2]	-
Less: Other revenue and expense reclassified to deficit	-	-
Net change in accumulated other	10	-
Opening balance	-	-
Closing balance	10	-
Total net assets (net liabilities)	80,157	88,692

1 This section of the statement is based on the requirements in FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450. PSAB is considering narrow scope amendments to these standards. The illustration is not meant to presume Board conclusions on these standards. As requirements change, the illustration will be updated.

2 Refer to note 3 on the statement of financial position.

NOTE: If this statement becomes complex, an entity could include some of the information in additional statements, such as a statement of remeasurement gains and losses, or in a schedule to the financial statements. The purpose of these additional statements or schedules would be to show the details related to changes in a component of net assets or net liabilities. The statement of changes in net assets or net liabilities would then become a summary statement.

Local Government
Statement of Cash Flow
For the year ended March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Cash and cash equivalents at beginning of period	1,366	1,137
Operating transactions		
Deficit	(8,624)	(7,449)
Non-cash revenue and expense items included in deficit (Note X)	10,583	10,580
Items included in deficit that relate to capital, investing or financing activities (Note Y)	(1,141)	(135)
Cash provided by operating transactions	818	2,996
Capital transactions		
Capital transfers received	190	150
Proceeds on sale of tangible capital assets	46	72
Cash used to acquire tangible capital assets	(294)	(250)
Cash applied to capital transactions	(58)	(28)
Investing transactions		
Proceeds from disposals and redemptions of portfolio investments	1,030	4,126
Portfolio investments purchases	(1,129)	(4,369)
Other	(17)	(15)
Cash applied to investing transactions	(116)	(258)
Net cash provided by operating, capital and investing activities	644	2,710
Net cash before financing transactions	2,010	3,847
Financing transactions		
Public debt issues	13,970	3,694
Debt repayment	(14,403)	(6,175)
Contribution from third party	10	-
Cash applied to financing transactions	(423)	(2,481)
Cash and cash equivalents at end of period	1,587	1,366

NOTE: The indirect method is used for illustrative purposes only. Both the indirect and the direct method are allowed to report cash flow from operations.

APPENDIX C
ILLUSTRATIVE FINANCIAL STATEMENTS – INDIGENOUS GOVERNMENTS

Indigenous Government
Statement of Financial Position
As at March 31 ($ thousands)

	Actual 20X3	Actual 20X2
ASSETS		
Financial assets		
Cash	1,669	3,842
Investment	3,161	2,875
Accounts receivable	410	336
Investment in government business enterprise	2,506	2,413
	7,746	9,466
Non-financial assets		
Tangible capital assets	10,963	9,193
Prepaid expenses	31	68
	10,994	9,261
TOTAL ASSETS	18,740	18,727
LIABILITIES		
Financial liabilities		
Accounts payable and accrued liabilities	346	776
Debt	4,636	4,367
Unearned revenue	1,000	1,051
	5,982	6,194
Non-financial liabilities		
Public private partnership obligation (user-pay model)[1]	-	-
TOTAL LIABILITIES	5,982	6,194
Net assets (net liabilities)	12,758	12,533
Net assets (net liabilities) components:		
Accumulated surplus	12,747	12,528
Accumulated remeasurement gains and losses	11	5
Accumulated other	- [2]	-
	12,758	12,533

1 This category (user-pay model) refers to a type of public private partnership arrangement where the private sector partner designs, builds, finances, operates and/or maintains infrastructure for the public sector entity in exchange for a right to charge end-users. The public sector entity compensates the private sector partner by granting rights to earn revenue from third-party users or access to another revenue-generating asset. This type of liability is introduced in Exposure Draft, “Public Private Partnerships.” This liability is being reflected in the statement to highlight this new type of liability that might arise if PSAB approves the public private partnerships standard.

The Exposure Draft, “Public Private Partnerships,” also introduces a public private partnership obligation related to the financial liability model. Under such model, the entity has an obligation to deliver cash or another financial asset. This type of liability would be considered a financial liability and would be reflected as such on the statement of financial position.

2 This component would be used for those transactions identified by PSAB at the standards level. Unlike the other illustrative financial statements in this Exposure Draft, endowment contributions were not presented as an example as the Board understands that Indigenous governments rarely receive endowment contributions. PSAB decided to retain this line item in this illustrative financial statement to indicate that this component would be available to Indigenous governments, in the same way it would be available to all other public sector entities; that is, when the entity has transactions that have been identified by PSAB to be presented in this component.

Indigenous Government
Statement of Net Financial Assets[1]
As at March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Financial assets	7,746	9,466
Less: Financial liabilities	5,982	6,194
Net financial assets	1,764	3,272

A net financial assets position indicates that there are net financial assets available to provide services in the future and meet future financial liabilities. Alternatively, a net financial liabilities position indicates that additional financial assets are required in the future to settle the financial liabilities incurred. A net financial liabilities position represents a lien on future financial assets and affects the government's ability to finance activities, provide services and settle financial liabilities in the future.

1 When the bottom indicator is a negative number, the statement would be called a statement of net financial liabilities.

OPTION: An entity may choose to explain the change in the net financial assets or net financial liabilities indicator. The change would be explained on this statement. When the change in the indicator is shown, the statement could be called a statement of net financial liabilities (or net financial assets) and change in net financial liabilities (or net financial assets). Refer to Appendix F for a possible way to explain the change in the indicator.

Indigenous Government
Statement of Operations
For the year ended March 31 ($ thousands)

	Budget 20X3	Actual 20X3	Actual 20X2
Revenues			
Government contributions for operations	2,972	4,236	3,989
Net Income (loss) from government business enterprises	-	(127)	(230)
Rental income	202	239	215
Foreign exchange gain (loss)	-	(118)	119
Investment Income	12	17	45
	3,186	4,247	4,138
Expenses (by function)			
Administration	520	306	559
Economic development and employment	284	584	471
Education	363	764	565
Health and social program	1,233	1,292	1,209
Housing	329	167	248
Indigenous rights and title (treaty negotiations)	200	409	284
Maintenance	249	217	262
General government	200	289	362
	3,378	4,028	3,960
Surplus (Deficit)	(192)	219	178

NOTE: Interest expense and valuation allowances have been allocated by function. However, when it is not practicable to do so, an entity can present interest expense and/or valuation allowances as separate line items.

Indigenous Government
Statement of Changes in Net Assets (Net Liabilities)
For the year ended March 31 ($ thousands)

	Actual 2018	Actual 2017
Accumulated surplus		
Surplus for the period	219	178
Opening balance	12,528	12,350
Closing balance	12,747	12,528
Accumulated remeasurement gains and losses[1]		
Unrealized gains (losses) attributable to:		
Portfolio investments	5	3
Financial instruments designated to the fair value category	-	-
Less: Amounts reclassified to surplus		
Net realized losses on portfolio Investments	1	2
Other comprehensive income of:		
Government business enterprises/partnership	-	-
Net change in accumulated remeasurement gains and losses	6	5
Opening balance	5	
Closing balance	11	5
Accumulated other		
Other revenue and expense recognized directly in net assets	- [2]	-
Less: Other revenue and expense reclassified to surplus	-	-
Net change in accumulated other	-	-
Opening balance	-	-
Closing balance	-	-
Total net assets (net liabilities)	12,758	12,533

1 This section of the statement is based on the requirements in FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450. PSAB is considering narrow scope amendments to these standards. The illustration is not meant to presume Board conclusions on these standards. As requirements change, the illustration will be updated.

2 Refer to note 2 on the statement of financial position.

NOTE: If this statement becomes complex, an entity could include some of the information in additional statements, such as a statement of remeasurement gains and losses, or in a schedule to the financial statements. The purpose of these additional statements or schedules would be to show the details related to changes in a component of net assets or net liabilities. The statement of changes in net assets or net liabilities would then become a summary statement.

Indigenous Government
Statement of Cash Flow
For the year ended March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Cash at beginning of period	3,842	3,771
Operating transactions		
Surplus	219	178
Non-cash revenue and expense items included in surplus (Note X)	220	419
Changes in working capital accounts	(517)	437
Cash (applied to) provided by operating transactions	(78)	1,034
Capital transactions		
Cash used to acquire tangible capital assets	(2,136)	(1,105)
Cash applied to capital transactions	(2,136)	(1,105)
Investing transactions		
Portfolio investments purchased	(379)	(590)
Other	0	(4)
Cash applied to investing transactions	(379)	(594)
Net cash applied to operating, capital and investing activities	(2,593)	(665)
Net cash before financing transactions	1,249	3,106
Financing transactions		
New debt	532	736
Debt repayment	(112)	(110)
Cash provided by financing transactions	420	736
Cash at end of period	1,669	3,842

NOTE: The indirect method is used for illustrative purposes only. Both the indirect and the direct methods are allowed to report cash flow from operations.

APPENDIX D
ILLUSTRATIVE FINANCIAL STATEMENTS – HEALTH-RELATED PUBLIC SECTOR ENTITIES

Health-related Public Sector Entity
Statement of Financial Position
As at March 31 ($ thousands)

	Actual 20X3		Actual 20X2
ASSETS			
Financial assets			
Cash and cash equivalents	136,693		163,286
Accounts receivable	235,689		205,349
Portfolio investments	35,557		56,518
Inventories held for sale	15,540		15,449
	423,479		440,602
Non-financial assets			
Tangible capital assets	1,205,786		1,076,113
Inventories held for use	45,842		51,017
Prepaid expenses	14,594		14,331
Investments that cannot be used to settle a financial liability or spend on future operations	10	[1]	-
	1,266,232		1,141,461
TOTAL ASSETS	1,689,711		1,582,063
LIABILITIES			
Financial liabilities			
Accounts payable and accrued liabilities	401,692		377,361
Employee benefits	86,328		71,343
Debt	201,436		124,201
Unearned revenue	68,991		81,511
Transfers to acquire tangible capital assets	20,787	[2]	16,544
	779,234		670,960
Non-financial liabilities			
Transfers to use tangible capital assets in service delivery	20,000	[2]	20,000
Public private partnership obligation (user-pay model)[3]	-		-
TOTAL LIABILITIES	799,234		690,960
Net assets (net liabilities)	890,477		891,103
Net assets (net liabilities) components:			
Accumulated surplus (deficit)	889,372		889,013
Accumulated remeasurement gains and losses	1,095		2,090
Accumulated other	10	[4]	-
	890,477		891,103

1 The amount represents cash received that is similar to an endowment: the endowed amount is restricted in perpetuity. If the endowed amount is restricted in perpetuity, it cannot be used to settle financial liabilities or spend on future operations. As a result, it does not meet the definition of a financial asset.

2 Capital transfers received may be recognized as liabilities until the related asset is bought or built or, alternatively, as the related asset is used as allowed by GOVERNMENT TRANSFERS, Section PS 3410.

If an entity determines that a capital transfer received is only a liability until the related asset is bought or built, then it would recognize the liability as a financial liability. Revenue recognition would occur as the related asset is bought or built.

If an entity determines that a capital transfer received is a liability until the related asset is used to provide services, then the initial liability is a financial liability. That financial liability then becomes a non-financial liability as the asset is constructed or purchased. Revenue recognition would occur as the related asset is used to provide services.

3 This category (user-pay model) refers to a type of public private partnership arrangement where the private sector partner designs, builds, finances, operates and/or maintains infrastructure for the public sector entity in exchange for a right to charge end-users. The public sector entity compensates the private sector partner by granting rights to earn revenue from third-party users or access to another revenue-generating asset. This type of liability is introduced in Exposure Draft, "Public Private Partnerships." This liability is being reflected in the statement to highlight this new type of liability that might arise if PSAB approves the public private partnerships standard.

The Exposure Draft, "Public Private Partnerships," also introduces a public private partnership obligation related to the financial liability model. Under such model, the entity has an obligation to deliver cash or another financial asset. This type of liability would be considered a financial liability and would be reflected as such on the statement of financial position.

4 The amount represents the credit entry for cash received that is similar to an endowment: the endowed amount is restricted in perpetuity. Based on the review of the transaction, one recognition option that would be available to PSAB under the new model, which is not available in the current model, would be to reflect the amount directly in a component of net assets or net liabilities. The Board would choose such an option if it concluded that such presentation better served the accountability objective of financial reporting. NOTE: This illustrative transaction does not presuppose that in the future the Board will develop a standard that will allow endowments to be reflected directly in net assets or net liabilities. Such a conclusion can be reached only after following the due process and conducting the appropriate research. The intent of the illustration is to show that with the proposed model, the Board would have a new alternative to consider when resolving standards-level issues, in such a way that the presentation would reflect the substance of the transaction and provide improved accountability information. CONTRIBUTIONS – REVENUE RECOGNITION, paragraph PS 4210.29, states that under the deferral method, endowment contributions are recognized as direct increases in net assets. This Section does not apply to all public sector entities. However, it is a Section in the existing PSA Handbook that the Board could look at when developing an endowment standard for all public sector entities.

Health-related Public Sector Entity
Statement of Net Financial Liabilities[1]
As at March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Financial assets	423,479	440,602
Less: Financial liabilities	779,234	670,960
Net financial liabilities	(355,755)	(230,358)

A net financial liabilities position indicates that additional financial assets are required in the future to settle the financial liabilities incurred. A net financial liabilities position represents a lien on future financial assets and affects the hospital's ability to finance activities, provide services and settle financial liabilities in the future. Alternatively, a net financial assets position indicates that there are net financial assets available to provide services in the future and meet future financial liabilities.

1 When the indicator is a positive number, the statement would be called a statement of net financial assets.

NOTE: PSAB may determine that this indicator may not be appropriate for some GNFPOs and therefore that this statement need not be prepared by those entities.

OPTION: An entity may choose to explain the change in the net financial assets or net financial liabilities indicator. The change would be explained on this statement. When the change in the indicator is shown, the statement could be called a statement of net financial liabilities (or net financial assets) and change in net financial liabilities (or net financial assets). Refer to Appendix F for a possible way to explain the change in the indicator.

Health-related Public Sector Entity
Statement of Operations
For the year ended March 31 ($ thousands)

	Budget 20X3	Actual 20X3	Actual 20X2
Revenues			
Government grants	2,070,492	2,179,184	2,070,342
Recoveries	457,712	507,512	483,277
Other contributions	270,419	265,250	265,709
Patient and client fees	12,443	20,245	17,524
Other revenue	36,595	45,031	42,185
Net investment income	2,233	2,442	1,658
	2,849,894	3,019,664	2,880,695
Expenses (by function)			
Acute care	1,881,442	1,978,034	1,865,837
Corporate	492,312	568,084	554,030
Population health and wellness	197,251	189,808	184,763
Community care	149,415	141,197	107,907
Mental health and substance use	127,719	140,428	130,148
Residential care	1,755	1,754	1,755
	2,849,894	3,019,305	2,844,440
Surplus	-	359	36,255

NOTE: Interest expense and valuation allowances have been allocated by function. However, when it is not practicable to do so, an entity can present interest expense and/or valuation allowances as separate line items.

Health-related Public Sector Entity
Statement of Changes in Net Assets (Net Liabilities)
For the year ended March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Accumulated surplus (deficit)		
Surplus for the period	359	36,255
Opening balance	889,013	852,758
Closing balance	889,372	889,013
Accumulated remeasurement gains and losses[1]		
Unrealized gains (losses) attributable to:		
Foreign exchange	-	-
Portfolio investments	(737)	2,090
Financial instruments designated to the fair value category	-	-
Amounts reclassified to surplus		
Net realized (gains) losses on portfolio investments	(258)	-
Net change in accumulated remeasurement gains and losses	(995)	2,090
Opening balance	2,090	-
Closing balance	1,095	2,090
Accumulated other		
Other revenue and expense recognized directly in net assets	10 [2]	-
Other revenue and expense reclassified to surplus	-	-
Net change in accumulated other	10	-
Opening balance	-	-
Closing balance	10	-
Total net assets (net liabilities)	890,477	891,103

1 This section of the statement is based on the requirements in FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450. PSAB is considering narrow scope amendments to these standards. The illustration is not meant to presume Board conclusions on these standards. As requirements change, the illustration will be updated.

2 Refer to note 4 on the statement of financial position.

NOTE: If this statement becomes complex, an entity could include some of the information in additional statements, such as a statement of remeasurement gains and losses, or in a schedule to the financial statements. The purpose of these additional statements or schedules would be to show the details related to changes in a component of net assets or net liabilities. The statement of changes in net assets or net liabilities would then become a summary statement.

Health-related Public Sector Entity
Statement of Cash Flow
For the year ended March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Cash and cash equivalents at beginning of period	163,286	103,168
Operating transactions		
Surplus	359	36,255
Non-cash revenue and expense items included in surplus (Note X)	75,173	27,655
Items included in surplus that relate to capital, investing or financing activities (Note Y)	(70,008)	2,293
Cash provided by operating transactions	5,524	66,203
Capital transactions		
Capital transfers received	80	86
Cash used to acquire tangible capital assets	(128,722)	(129,223)
Cash applied to capital transactions	(128,642)	(129,137)
Investing transactions		
Proceeds from disposals and redemptions of portfolio investments	19,280	10,930
Purchases of portfolio investments	-	(1,463)
Cash provided by investing transactions	19,280	9,467
Net cash applied to operating, capital and investing activities	(103,838)	(53,467)
Net cash before financing transactions	59,448	49,701
Financing transactions		
Repayment of debt	(46,975)	(7,371)
New debt	124,210	120,956
Contribution from third party	10	-
Cash provided by financing transactions	77,245	113,585
Cash and cash equivalents at end of period	136,693	163,286

NOTE: The indirect method is used for illustrative purposes only. Both the indirect and the direct methods are allowed to report cash flow from operations.

APPENDIX E
ILLUSTRATIVE FINANCIAL STATEMENTS – COLLEGES AND/OR UNIVERSITIES IN THE PUBLIC SECTOR

College and/or University in the Public Sector
Statement of Financial Position
As at March 31 ($ thousands)

	Actual 20X3		Actual 20X2
ASSETS			
Financial assets			
Cash and cash equivalents	18,768		13,091
Accounts receivable	143,216		131,563
Portfolio investments	878,064		808,612
Inventories for resale	2,642		3,325
	1,042,690		956,591
Non-financial assets			
Tangible capital assets	2,710,920		2,745,552
Investments that cannot be used to settle a financial liability or spend on future operations	1,275,305	1	1,149,716
Inventories of supplies and prepaid expenses	7,199		8,517
	3,993,424		3,903,785
TOTAL ASSETS	5,036,114		4,860,376
LIABILITIES			
Financial liabilities			
Accounts payable and accrued liabilities	179,148		174,971
Employee future benefit liabilities	251,060		259,100
Debt	250,562		246,812
Unearned revenue	560,420		509,728
Transfers to acquire tangible capital assets	921,756	2	992,440
	2,162,946		2,183,051
Non-financial liabilities			
Transfers to use tangible capital assets in service delivery	1,000,000	2	1,000,000
Public private partnership obligation (user-pay model)[3]	-		-
TOTAL LIABILITIES	3,162,946		3,183,051
Net assets (net liabilities)	1,873,168		1,677,325
Net assets (net liabilities) components:			
Accumulated surplus	442,157		390,803
Accumulated remeasurement gains and losses	155,706		136,806
Accumulated other	1,275,305	4	1,149,716
	1,873,168		1,677,325

1 The amount represents cash received that is similar to an endowment: the endowed amount is restricted in perpetuity. If the endowed amount is restricted in perpetuity, it cannot be used to settle financial liabilities or spend on future operations. As a result, it does not meet the definition of a financial asset.

2 Capital transfers received may be recognized as liabilities until the related asset is bought or built or, alternatively, as the related asset is used as allowed by GOVERNMENT TRANSFERS, Section PS 3410.

If an entity determines that a capital transfer received is only a liability until the related asset is bought or built, then it would recognize the liability as a financial liability. Revenue recognition would occur as the related asset is bought or built.

If an entity determines that a capital transfer received is a liability until the related asset is used to provide services, then the initial liability is a financial liability. That financial liability then becomes a non-financial liability as the asset is constructed or purchased. Revenue recognition would occur as the related asset is used to provide services.

3 This category (user-pay model) refers to a type of public private partnership arrangement where the private sector partner designs, builds, finances, operates and/or maintains infrastructure for the public sector entity in exchange for a right to charge end-users. The public sector entity compensates the private sector partner by granting rights to earn revenue from third-party users or access to another revenue-generating asset. This type of liability is introduced in Exposure Draft, "Public Private Partnerships." This liability is being reflected in the statement to highlight this new type of liability that might arise if PSAB approves the public private partnerships standard.

The Exposure Draft, "Public Private Partnerships," also introduces a public private partnership obligations related to the financial liability model. Under such model, the entity has an obligation to deliver cash or another financial asset. This type of liability would be considered a financial liability and would be reflected as such on the statement of financial position.

4 The amount represents the credit entry for cash received that is similar to an endowment: the endowed amount is restricted in perpetuity. Based on the review of the transaction, one recognition option that would be available to PSAB under the new model, that is not available in the current model, would be to reflect the amount directly in a component of net assets or net liabilities. The Board would choose such an option if it concluded that such presentation better served the accountability objective of financial reporting.

NOTE: This illustrative transaction does not presuppose that in the future the Board will develop a standard that will allow endowments to be reflected directly in net assets or net liabilities. Such a conclusion can be reached only after following the due process and conducting the appropriate research. The intent of the illustration is to show that with the proposed model, the Board would have a new alternative to consider when resolving standards-level issues, in such a way that the presentation would reflect the substance of the transaction and provide improved accountability information. CONTRIBUTIONS – REVENUE RECOGNITION, paragraph PS 4210.29, states that under the deferral method, endowment contributions are recognized as direct increases in net assets. This Section does not apply to all public sector entities. However, it is a Section in the existing PSA Handbook that the Board could look at when developing an endowment standard for all public sector entities.

College and/or University in the Public Sector
Statement of Net Financial Liabilities[1]
As at March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Financial assets	1,042,690	956,591
Less: Financial liabilities	2,162,946	2,183,051
Net financial liabilities	(1,120,256)	(1,226,460)

A net financial liabilities position indicates that additional financial assets are required in the future to settle the financial liabilities incurred. A net financial liabilities position represents a lien on future financial assets and affects the institution’s ability to finance activities, provide services and settle financial liabilities in the future. Alternatively, a net financial assets position indicates that there are net financial assets available to provide services in the future and meet future financial liabilities.

1 When the indicator is a positive number, the statement would be called a statement of net financial assets.

NOTE: PSAB may determine that the net financial liabilities or the net financial asset indicator may not be appropriate for some GNFPOs and therefore that this statement need not be prepared by those entities.

OPTION: An entity may choose to explain the change in the net financial assets or net financial liabilities indicator. The change would be explained on this statement. When the change in the indicator is shown, the statement could be called a statement of net financial liabilities (or net financial assets) and change in net financial liabilities (or net financial assets). Refer to Appendix F for a possible way to explain the change in the indicator.

College and/or University in the Public Sector
Statement of Operations
For the year ended March 31 ($ thousands)

	Budget 20X3	Actual 20X3	Actual 20X2
Revenues			
Government grants	1,153,233	1,154,906	1,131,640
Student tuition and fees	334,378	319,181	316,795
Sales of services and products	192,433	205,509	196,649
Donations and non-government grants	133,816	119,451	132,209
Net investment income	62,743	95,201	71,092
	1,876,603	1,894,248	1,848,385
Expenses (by function)			
Instruction	1,131,998	1,145,558	1,124,541
Research	476,452	469,436	438,550
Facility operations	134,716	140,411	147,282
Ancillary services	95,816	87,489	96,536
	1,838,982	1,842,894	1,806,909
Surplus	37,621	51,354	41,476

NOTE: Interest expense and valuation allowances have been allocated by function. However, when it is not practicable to do so, an entity can present interest expense and/or valuation allowances as separate line items.

College and/or University in the Public Sector
Statement of Changes in Net Assets (Net Liabilities)
For the year ended March 31 ($ thousands)

	Actual 20X3		Actual 20X2
Accumulated surplus			
Surplus for the period	51,354		41,476
Opening balance	390,803		349,327
Closing balance	442,157		390,803
Accumulated remeasurement gains and losses[1]			
Unrealized gains (losses) attributable to:			
Foreign exchange	-		-
Portfolio investments	161,743		(38,597)
Financial instruments designated to the fair value category	-		-
Less: Amounts reclassified to surplus			
Net realized (gains) losses on portfolio investments	(49,250)		(35,176)
Less: Amounts reclassified to accumulated other	(93,593)	2	61,917
Net change in accumulated remeasurement gains and losses	18,900		(11,856)
Opening balance	136,806		148,662
Closing balance	155,706		136,806
Accumulated other			
Other revenue and expense recognized directly in net assets	31,996	3	30,140
Plus: Amounts from accumulated remeasurement gains and losses	93,593	2	(61,917)
Less: Other revenue and expense reclassified to surplus	-		-
Net change in accumulated other	125,589		(31,777)
Opening balance	1,149,716		1,181,493
Closing balance	1,275,305	4	1,149,716
Total net assets (net liabilities)	1,873,168		1,677,325

1 This section of the statement is based on the requirements in FOREIGN CURRENCY TRANSLATION, Section PS 2601, and FINANCIAL INSTRUMENTS, Section PS 3450. PSAB is considering narrow scope amendments to these standards. The illustration is not meant to presume Board conclusions on these standards. As requirements change, the illustration will be updated.

2 These amounts are being reclassified to accumulated other as they relate to the endowments. NOTE: This does not presuppose that in the future PSAB will develop a standard that will allow remeasurements related to endowments to be reclassified to the accumulated other component of net assets. Such a conclusion can be reached only after following the due process and conducting the appropriate research.

3 The amount relates to cash received that is similar to an endowment: the endowed amount is restricted in perpetuity. Based on the review of the transaction, one recognition option that would be available to PSAB under the new model, which is not available in the current model, would be to reflect the amount directly in a component of net assets or net liabilities. The Board would choose such an option if it concluded that such presentation better served the accountability objective of financial reporting.

NOTE: This illustrative transaction does not presuppose that in the future the Board will develop a standard that will allow endowments to be reflected directly in net assets or net liabilities. Such a conclusion can be reached only after following the due process and conducting the appropriate research. The intent of the illustration is to show that with the proposed model the Board would have a new alternative to consider when resolving standards-level issues, in such a way that the presentation would reflect the substance of the transaction and provide improved accountability information.

4 Refer to note 4 on the statement of financial position.

NOTE: If this statement becomes complex, an entity could include some of the information in additional statements, such as a statement of remeasurement gains and losses, or in a schedule to the financial statements. The purpose of these additional statements or schedules would be to show the details related to changes in a component of net assets or net liabilities. The statement of changes in net assets or net liabilities would then become a summary statement.

College and/or University in the Public Sector
Statement of Cash Flow
For the year ended March 31 ($ thousands)

	Actual 20X3	Actual 20X2
Cash and cash equivalents at beginning of period	13,091	57,963
Operating transactions		
Surplus	51,354	41,476
Non-cash revenue and expense items included in surplus (Note X)	127,661	139,256
Items included in surplus that relate to capital, investing or financing activities (Note Y)	(150,744)	(239,519)
Cash provided by (applied to) operating transactions	28,271	(58,787)
Capital transactions		
Capital transfers received	114,315	117,027
Proceeds on sale of tangible capital assets	2,500	559
Cash used to acquire tangible capital assets	(141,858)	(132,355)
Cash applied to capital transactions	(25,043)	(14,769)
Investing transactions		
Proceeds from disposals and redemptions of portfolio investments	352,683	363,742
Purchases of portfolio investments	(385,980)	(378,371)
Cash applied to investing transactions	(33,297)	(14,629)
Net cash applied to operating, capital and investing activities	(30,069)	(88,185)
Net cash before financing transactions	(16,978)	(30,222)
Financing transactions		
Repayment of debt	(13,750)	(13,072)
New debt	17,500	35,500
Endowment contributions	31,996	20,885
Cash provided by financing transactions	35,746	43,313
Cash and cash equivalents at end of period	18,768	13,091

NOTE: The indirect method is used for illustrative purposes only. Both the indirect and the direct methods are allowed to report cash flow from operations.

APPENDIX F
ILLUSTRATIVE STATEMENT OF NET FINANCIAL LIABILITIES (OR NET FINANCIAL ASSETS) INCLUDING OPTIONAL PRESENTATION OF THE CHANGE IN NET FINANCIAL LIABILITIES (OR NET FINANCIAL ASSETS)

Statement of Net Financial Liabilities and Change in Net Financial Liabilities[1]
As at March 31 ($ millions)

	Actual 20X3	Actual 20X2
Financial assets	xxx	xxx
Less: Financial liabilities	xxx	xxx
Net financial liabilities	xxx	xxx

A net financial liabilities position indicates that additional financial assets are required in the future to settle the financial liabilities incurred. A net financial liabilities position represents a lien on future financial assets and affects the entity's ability to finance activities, provide services and settle financial liabilities in the future. Alternatively, a net financial assets position indicates that there are net financial assets available to provide services in the future and meet future financial liabilities.

Change in Net Financial Liabilities
For the year ended March 31 ($ millions)

	Budget 20X3	Actual 20X3	Actual 20X2
Net financial liabilities at beginning of year	xxx	xxx	xxx
Change pertaining to operating surplus (deficit)	**xxx**	**xxx**	**xxx**
Acquisition of tangible capital assets	xxx	xxx	xxx
Amortization of tangible capital assets	xxx	xxx	xxx
Other	-	xxx	xxx
Change pertaining to tangible capital assets	**xxx**	**xxx**	**xxx**
Acquisition of supplies inventories and prepaid expense	-	xxx	xxx
Consumption of supplies inventories and prepaid expense	-	xxx	xxx
Change pertaining to other non-financial assets	**-**	**xxx**	**xxx**
Change pertaining to net remeasurement gains and losses		**xxx**	**xxx**
(Increase) Decrease in net financial liabilities		**xxx**	**xxx**
Net financial liabilities at end of year	**xxx**	**xxx**	**xxx**

1 When the indicator is a positive number, the statement would be called a statement of net financial assets and change in net financial assets.

NOTE: If PSAB approves the amendments to the “Consolidated Statement of Change in Net Debt” in Appendix A of Section PS 1201 as proposed in Exposure Draft, “Financial Instruments: Presentation Narrow-scope Amendments,” to show the details related to the change in net remeasurement gains and losses, a similar amendment would be made to this Appendix.

BASIS FOR CONCLUSIONS

TABLE OF CONTENTS **Paragraph**

INTRODUCTION

BC.001 This Basis for Conclusions summarizes the considerations the Public Sector Accounting Board (PSAB) made in reaching its conclusions on revising FINANCIAL STATEMENT PRESENTATION, Section PS 1201, and replacing it with FINANCIAL STATEMENT PRESENTATION, Section PS 1202.

BC.002 Prior to approving a final standard, PSAB will review and deliberate responses to the Exposure Draft.

BC.003 Although Section PS 1202 is intended to apply to all public sector entities that prepare financial statements in accordance with the PSA Handbook, those entities that apply the PS 4200 series of the CPA Canada Public Sector Accounting (PSA) Handbook would continue to do so. Any amendments to the PS 4200 series or their application would be made through PSAB's Government Not-for-Profit (GNFP) Strategy project.

INTENDED OUTCOMES AND EXPECTED EFFECTS

BC.004 The intended outcome of the proposed financial statement presentation standard is to have a reporting model that considers:

(a) the key characteristics of all public sector entities;

(b) the needs of the primary users;[1]

(c) the needs of all public sector entities;

(d) current technical issues; and

(e) new issues that may arise in the future.

BC.005 The expected effects of revising the reporting model are:

(a) increased understanding of the financial statements and the indicators within the financial statements by the users; and

(b) improved accountability information for the users.

BC.006 The proposals will create the need for entities to adjust their financial statement presentation to comply with the revised requirements.

BC.007 The purpose of a financial statement presentation standard is to prescribe the basis for presentation of financial information in financial statements to ensure comparability both with the entity's financial statements of previous periods and its approved budget, as well as with the financial statements of similar entities. The proposed financial statement presentation standard sets out the overall requirements for the presentation of financial statements, guidance for their structure and minimum requirements for their content. However, if an entity wishes to present additional content, such as risks and uncertainties that are not currently required to be disclosed by standards in the PSA Handbook, it could do so.[2]

THE JOURNEY: HOW PSAB ARRIVED AT ITS PRINCIPLES FOR A PROPOSED REPORTING MODEL IN THE EXPOSURE DRAFT

BC.008 The proposals developed to date have considered all of the extensive feedback received from:

(a) the three Consultation Papers;

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1 The proposed Conceptual Framework identifies the primary users as the public and its elected or appointed representatives.

2 Chapter 10, "Presentation Concepts for Financial Statements," paragraph 10.24 of the proposed Conceptual Framework provides criteria to consider when determining if supplemental information to that required by the PSA Handbook should be included in an entity's financial statements.

(b) the Statement of Concepts and Statement of Principles; and

(c) comprehensive stakeholder outreach (e.g., through webinars, roundtables, presentations).

BC.009 The proposals developed also consider:

(a) international developments;

(b) PSAB's proposals in other projects on its technical agenda;

(c) the Board's strategic objectives in its 2017-2022 Strategic Plan; and

(d) the Joint Working Group's recommendations.[3]

Consultation Paper 1

BC.010 In August 2011, the Concepts Underlying Financial Performance Task Force (the "Task Force") issued Consultation Paper 1, "Characteristics of Public Sector Entities." Its purpose was to refine and better describe the characteristics of governments and other public sector entities. Through this Consultation Paper, the Task Force gathered feedback on the key characteristics of public sector entities that have financial reporting implications and create Chapter 2, "Characteristics of Public Sector Entities," of the proposed Conceptual Framework. These characteristics ground the development of the concepts and principles in the realities of the public sector environment.

Consultation Paper 2

BC.011 In October 2012, the Task Force issued Consultation Paper 2, "Measuring Financial Performance in Public Sector Financial Statements." It articulated the objective of public sector financial reporting, the primary users of those reports, broad financial reporting accountabilities and more specific financial statement accountabilities. The feedback helped with the development of Chapter 3, "Financial Reporting Objective," of the proposed Conceptual Framework.

BC.012 Consultation Paper 2 also asked for stakeholders' views on three reporting models:

(a) An asset and liability model: This model would determine surplus or deficit based on the definitions of assets and liabilities and would include all changes in assets and liabilities of the period in the surplus or deficit of the period.

(b) A revenue and expense model: This model would determine surplus or deficit based on the definitions of revenue and expense and would include all items not meeting these definitions in the statement of financial position.

(c) A hybrid model: This model would determine surplus or deficit independently from financial position. This approach leads to poor articulation between the financial statements (i.e., the linkages between the information on the financial statements are not as apparent as they would be with the other models).

BC.013 Of the three reporting models, the asset and liability model was endorsed by a significant majority of respondents because of:

(a) its link to real economic events;

(b) its closeness to business reporting, thus improving stakeholders' understanding;

(c) the strong base that it provides for developing sustainability reporting; and

(d) the fact that a case has not been made regarding the value added by moving to another model.

3 The 2007-2009 Joint Working Group comprised selected PSAB members and deputy ministers of Finance. The Group suggested that the existing conceptual framework in the PSA Handbook required review, with a focus on reporting financial performance of public sector entities.

Consultation Paper 3

BC.014 In March 2015, the Task Force issued Consultation Paper 3, "Conceptual Framework Fundamentals and the Reporting Model." It highlighted many of the concepts proposed for a revised Conceptual Framework and reporting model. Its intent was to solicit early feedback on these preliminary concepts and a proposed reporting model built on those concepts.

BC.015 In Consultation Paper 3, the Task Force considered the feedback received to Consultation Papers 1 and 2 and developed an asset and liability–based reporting model, which included a statement of comprehensive financial results. The intent of this statement was to present the net result of services and programs and the volatility arising from certain government transfers, unexpected events and fair value changes.

BC.016 The feedback received indicated that respondents were concerned with:

(a) the lack of an identified surplus or deficit indicator;

(b) presenting two bottom lines on one statement;

(c) presenting unrealized remeasurements with operating results;

(d) not allowing for the possibility of hedge accounting;

(e) two possible presentations of capital transfers received; and

(f) separating out unusual items, which are difficult to define in the public sector.

BC.017 As a result, the reporting model proposed in Consultation Paper 3 was set aside.

The Statement of Concepts and Statement of Principles

BC.018 In May 2018, PSAB issued Statement of Concepts, "A Revised Conceptual Framework for the Canadian Public Sector," and Statement of Principles, "A Revised Reporting Model for the Canadian Public Sector." The Statement of Concepts and the Statement of Principles provided the details for a revised Conceptual Framework and reporting model based on the feedback received on the three Consultation Papers.

BC.019 PSAB received, reviewed and responded to considerable feedback. Based on that feedback, the Board developed the Exposure Draft for a proposed Conceptual Framework and the Exposure Draft for a proposed financial statement presentation standard (i.e., a revised Section PS 1201 that is proposed to be Section PS 1202).

EXPOSURE DRAFT

BC.020 The key changes proposed for the reporting model in Section PS 1201 include:

(a) relocating of the net debt or net financial assets indicator to its own statement, the statement of net financial assets or net financial liabilities, including the renaming of the net debt indicator to net financial liabilities;[4]

(b) introducing two categories of liabilities: financial and non-financial liabilities;

(c) adding a new third component of the net assets or net liabilities position, presented in a breakdown below net financial position;

(d) introducing a new statement, the statement of changes in net assets or net liabilities;

(e) eliminating the requirement for the statement of change in net debt from the financial statement package, while still allowing the option to report the change in the indicator on the new statement of net financial assets or net financial liabilities; and

(f) using an amended budget in certain situations.

4 The discussion related to the renaming of the net debt indicator is found in paragraphs BC.111–BC.114. For the rest of this Basis for Conclusions, where applicable, net debt will be referred to by its proposed name "net financial liabilities."

BC.021 The Exposure Draft also proposes:

(a) minor amendments to the structure of the statement of cash flow; and

(b) revised requirements for comparing actual financial performance to that budgeted.

BC.022 Refer to Chapter 6, “Financial Statement Objectives,” of the Basis for Conclusions for the proposed Conceptual Framework for information regarding PSAB’s decisions on the conceptual underpinnings for financial statement presentation issues.

Statement of financial position

BC.023 Three key amendments are proposed for the statement of financial position in the Exposure Draft:

(a) the relocation of the net financial liabilities (currently known as net debt) or net financial assets indicator to its own statement;

(b) the introduction of two categories of liabilities: financial and non-financial liabilities; and

(c) the addition of a new third component of the net assets or net liabilities financial position presented in a breakdown below net financial position.

Relocating the net financial liabilities (currently known as net debt) or net financial assets indicator to its own statement

Background

BC.024 In the Statement of Principles, PSAB proposed to relocate the net debt (now proposed to be renamed “net financial liabilities”) or net financial assets indicator from the statement of financial position to its own statement for reasons that include:

(a) It allows the indicator to be prominently displayed in a statement, given its importance, rather than being presented as a subtotal in the statement of financial position.

(b) It allows PSAB to refine what is included in the net financial liabilities or net financial assets calculation to ensure the indicator’s original meaning is retained.

(c) By presenting all assets together and all liabilities together, it allows the statement of financial position to be understandable to users.

(d) It gives the Board the opportunity to determine whether certain public sector entities should report the net financial liabilities or net financial assets indicator.

BC.025 Despite the proposed relocation, the financial statements would retain key public sector distinctions:

(a) The financial and non-financial classification of assets is retained on the statement of financial position.[5]

(b) The net financial liabilities indicator (currently known as net debt) or net financial assets indicator is retained. It is presented in its own separate statement.

(c) The net asset or net liabilities indicator is retained as the indicator of net financial position.

Feedback on the Statement of Principles

BC.026 The majority of respondents agreed with the proposal to relocate the net financial liabilities or net financial assets indicator to its own statement. Those who disagreed provided mixed views:

(a) A few respondents noted that the indicator is important and highlighting it on the statement of financial position gives it prominence. Removing it from the statement of financial position reduces its prominence. Having the indicator on the statement of financial position

5 This reflects the characteristic “nature and use of public resources” identified in Chapter 2, “Characteristics of Public Sector Entities,” of the proposed Conceptual Framework.

also allows users to see it in relation to non-financial assets, which provides valuable accountability information.

(b) In contrast, a few respondents noted that the indicator can be presented in the notes rather than on a separate statement.

BC.027 Some respondents encouraged PSAB to consider alternative presentation options for the indicator.

Retaining the importance of the net financial liabilities indicator

BC.028 PSAB believes that net financial liabilities (currently known as net debt) is an important indicator:

(a) It provides information about future resources required to settle past commitments and obligations. The extent of an entity's net financial liabilities and its financial ability to service liabilities are important factors in assessing its fiscal sustainability.

(b) It is a key affordability measure for all public sector entities, regardless of their ability to tax or incur debt. The net financial liabilities position is created by the entity's past activities, specifically any decisions to incur liabilities, not just issued debt. For example, some entities have large unfunded pension liabilities or material capital leases on capital assets that are integral to operations. Entities need to know what is required in the future to pay for past commitments and obligations, and so do their stakeholders.

(c) Reporting net financial liabilities can help government not-for-profit organizations (GNFPOs) explain to donors that their funding needs exceed their financial resources.

BC.029 The relocation of net financial liabilities or net financial assets to its own statement is intended to display the indicator more prominently than if it were being reported as a subtotal within the statement of financial position.

BC.030 The proposed relocation of the net financial liabilities or net financial assets indicator to its own statement is not meant to lessen the importance of the indicator. In fact, Chapter 10, "Presentation Concepts," of the proposed Conceptual Framework states that "no one individual statement in the financial statement package is more important than any other." That is, all statements in the financial statement package are important, each statement has its own purpose and all statements would need to be looked at together when evaluating an entity's finances. Consequently, all indicators on the financial statements are important and should be looked at together when evaluating an entity.

BC.031 The proposed relocation of the indicator to its own statement creates the opportunity to make it more understandable and meaningful to users. On the new statement, an entity has the option to provide additional information in relation to what caused the indicator to increase or decrease in the accounting period. In effect, the new statement better allows an entity to explain the indicator in the context of its own finances, and for a government in the context of the economics of its particular jurisdiction.

Providing transparent information in relation to non-financial assets

BC.032 Respondents have indicated that comparing an entity's net financial liabilities (currently known as net debt) to the tangible capital asset balance on the statement of financial position allows users to determine whether tangible capital assets have been financed by debt. This comparison provides users with information on the entity's sustainability and its future resource requirements. The indicator and tangible capital asset balance needed to make this comparison are retained in the financial statements. Further, the statement of cash flow can also provide information useful in determining whether tangible capital assets have been financed by debt.

Alternative presentation options

BC.033 The proposed relocation of the net financial liabilities (currently known as net debt) or net financial assets indicator led PSAB to propose a revised structure for the statement of financial position, which was created to facilitate the calculation of the indicator on the face of the statement. Overall, there was general support from respondents to the Statement of Principles for this proposal.

BC.034 Some respondents to the Statement of Principles suggested that senior governments retain the current structure of the statement of financial position. This indirectly implies that other public sector entities would have a different statement of financial position presentation.

BC.035 Through the Concepts Underlying Financial Performance project, PSAB is creating a reporting model that will be used as a benchmark. The question of customized financial statement presentations for different types of public sector entities is outside the project's scope.

BC.036 Other respondents to the Statement of Principles suggested that PSAB allow an alternative location for the presentation of net financial liabilities for entities wishing to show the indicator on the statement of financial position. Some of these respondents indicated that they find the proposed new statement that presents the indicator redundant.

BC.037 PSAB prefers to continue with a separate statement of net financial liabilities or net financial assets for the following reasons:

(a) A separate statement allows the addition of a sentence or two explaining what the indicator means. This allows the indicator to be better understood. This would not be possible if the indicator was on the statement of financial position.

(b) Having net financial liabilities or net financial assets in its own statement isolates the indicator to promote its importance.

(c) A separate statement requires an entity to explain the net debt indicator, and if it wishes, the reasons for it changing in the accounting period, which increases the understandability of the indicator. For example, some stakeholders have noted that unrealized remeasurements create volatility in net debt. In this statement, entities can highlight and explain the extent to which volatility in the indicator arises from unrealized remeasurements, if considered useful and understandable to users.[6]

(d) Having the net financial liabilities or net financial assets calculation in its own statement makes the statement of financial position understandable and more familiar to users who also read private sector financial statements. It does not complicate the statement of financial position with a structure oriented to calculate net financial liabilities or net financial assets, among the other indicators it also presents.

Introducing financial and non-financial liabilities

BC.038 The need to ensure the net financial liabilities (currently known as net debt) or net financial asset indicator retained its original meaning led to the requirement to distinguish between financial and non-financial liabilities on the statement of financial position.

BC.039 More information on this proposal is in the section entitled "Statement of net financial assets or net financial liabilities," starting at paragraph BC.084.

Adding a new component of net assets or net liabilities

How the new component was created – the journey to "accumulated other"

BC.040 One of the objectives of the Concepts Underlying Financial Performance project is to develop a reporting model for the Canadian public sector that would best demonstrate accountability and transparency, while providing PSAB with the ability to deal with standards-level issues, such as those related to financial instruments and new issues that may arise. Based on the feedback on the three Consultation Papers, the reporting model also needed to be an asset and liability–based model that did not result in a single statement of comprehensive financial results.

6 The section "Statement of change in net debt or net financial assets" explains PSAB's proposal to provide entities the option to present the reasons for the change in net financial assets or net financial liabilities if they wish to do so.

BC.041 A review of the reporting models of other standard setters, including the International Public Sector Accounting Standards Board (IPSASB), the International Accounting Standards Board and the U.S. Governmental Accounting Standards Board, indicated that PSAB's reporting model needed to have a location on the financial statements where certain revenues and expenses of a period are presented outside of the surplus or deficit of that period.

BC.042 Based on the analysis of various options,[7] PSAB decided to present those revenues and expenses recognized outside of surplus or deficit in the period they arise, directly in net assets or net liabilities with the details on a separate statement of changes in net assets or net liabilities, for the following reasons:

(a) Such a model allows the financial position to be understandable because it only comprises assets and liabilities. It facilitates a clear reporting of net assets or net liabilities as the net financial position of the entity.

(b) Such a model is the most relevant to stakeholders because it does not include:

(i) deferred inflows and outflows as elements, which stakeholders rejected based on the feedback received on Consultation Paper 2; or

(ii) a two-bottom-line or "other comprehensive income" approach on the statement of operations, which stakeholders rejected based on the feedback on Consultation Paper 3.

(c) Such a model is the most practical because:

(i) it builds on the existing reporting model wherein certain revenues and expenses (such as unrealized remeasurements arising from financial instruments carried at fair value) are recognized directly in a component of net assets or net liabilities;

(ii) there would not be significant amendments to the reporting model for those government organizations that implemented the financial instruments and foreign currency translation standards in 2012; and

(iii) it aligns with important aspects of the reporting model that certain GNFPOs currently apply (i.e., those applying the PS 4200 series), such as having multiple components of net assets. As a result, the model can act as a bridge for this stakeholder group to more fully adopt the rest of the PSA Handbook depending on the type of GNFP strategy that PSAB develops.[8] It could also lead to a more understandable transition for this community and its stakeholders as PSAB reviews the PS 4200 series of standards.

(d) The model is the one that best aligns with the IPSASB's reporting model, as both recognize certain revenues and expenses directly in net assets or net liabilities, and the IPSASB has not yet required recognition of any transactions in its other resources and other obligations categories on the statement of financial position. This is important given that PSAB decided to adapt IPSAS principles when developing future standards.

BC.043 In developing the Statement of Principles, PSAB also concluded that the proposed reporting model would allow unrealized remeasurements and other revenues and expenses it identifies to be recognized outside of surplus or deficit in the period they arise. This best serves the public interest because:

(a) It allows the reporting model to be sustainable and sets the stage for establishing standards for years to come, as it is not restricted to just unrealized remeasurements being

7 The options PSAB considered included reflecting certain revenues and expenses in: (a) a statement of changes in net assets or net liabilities; (b) the statement of operations below surplus or deficit; or (c) the statement of financial position, outside of assets and liabilities.

8 PSAB has issued at the same time as this Exposure Draft, Consultation Paper II, "Government Not-for-Profit Strategy," to help it determine a strategy for GNFPOs that is in the public interest.

recognized outside of surplus or deficit in the period they arise. It thus gives PSAB the ability to deal with emerging issues.

(b) It allows the reporting model to be relevant for stakeholders:

(i) It specifically identifies and highlights the surplus or deficit of the period, and would require all revenue and expense of the period to be included in its calculation, unless required specifically by PSAB in another standard to be recognized in accumulated remeasurement gains and losses or accumulated other.

(ii) It retains important indicators of financial position, such as net assets or net liabilities and net financial liabilities (currently known as net debt) or net financial assets, that provide familiar and important accountability information to users.

(iii) It is responsive to the feedback received from stakeholders at the beginning of the project, in relation to standards-level issues. Although the project is not intended to amend standards, the proposals would give PSAB the ability to deal with standards-level issues.

(iv) It is responsive to the needs of the GNFP community, as the alternative gives PSAB more options to respond to accounting issues related to endowments.

(v) It provides PSAB with the ability to deal with issues that may arise in the future, such as heritage resources, intangibles and natural capital.

BC.044 The proposed reporting model allows PSAB to respond to users' needs as they arise and transparently reflect the economic substance of unique transactions or other events, leading to improved accountability information presented in financial statements.

BC.045 This proposed reporting model builds on the existing model. The existing reporting model has two components of net assets or net liabilities:

(a) accumulated operating surplus or deficit; and

(b) accumulated remeasurement gains and losses.

BC.046 The proposed reporting model has a third component called "accumulated other". This component would be used only in rare circumstances. Only PSAB would designate events[9] to be recognized in this component; extrapolation to other events would not be allowed.

BC.047 PSAB's decision to allow for the possibility that more than just remeasurements be recognized outside of surplus or deficit when they arise led to a discussion as to how restrictive and prescriptive the guidance for these other exclusions would be. PSAB evaluated various criteria that could be used to ensure consistent use of the component. However, it was determined that the criteria were very subjective. Instead of criteria, PSAB concluded that in determining that a revenue or expense should be recognized outside of surplus or deficit when it arises, PSAB would need to demonstrate, in the basis for conclusions of that standard, why such recognition provides better information for accountability purposes.

BC.048 The new component is being referred to as "accumulated other" because it is unknown at this time what PSAB will include in it. As standards are developed and if items are identified for inclusion in this component, the name of the component can be revisited. If PSAB concludes that transactions recognized in this new component share certain characteristics, it can subdivide the accumulated other component to establish an additional component to better describe that aspect of financial position to users. A new component might be appropriate, for example, if PSAB were in the future to require inherited natural capital or heritage resources to be recognized in financial statements. For these items already held by the entity, revenue or liability recognition of the credit side of the transaction may not be appropriate; the new component

9 Events include transactions.

allows for consideration of a third option. The introduction of new components would be to differentiate further items with shared characteristics to make the financial statements more understandable. The renaming of the component and the introduction of new components would be done through a consequential amendment to the financial statement presentation standard.

BC.049 In further contemplation of additional components of net assets or net liabilities, the reporting model would always identify a residual accumulated other. Accumulated other is a necessary feature of the model to allow possible reporting of further aspects of net financial position. PSAB sees this feature as important, giving future Boards the means to improve the accountability provided by financial statements.

Feedback from the Statement of Principles

BC.050 The majority of respondents to the Statement of Principles agreed with the proposal to add a new component of net assets or net liabilities. Concerns expressed by respondents included the following:

(a) the accumulated other component can be misused;

(b) the component is contrary to the conceptual framework;

(c) items in the component will not be reclassified to surplus or deficit;

(d) all revenues and expenses should be reflected in surplus or deficit;

(e) the component will create confusion; and

(f) the proposal diminishes transparency.

BC.051 Respondents also provided suggestions for PSAB's consideration:

(a) the addition of further components of net assets or net liabilities; and

(b) the inclusion of "other resources" and "other obligations".

Reducing the risk that the accumulated other component can be misused

BC.052 Some respondents expressed concern that the accumulated other component can be misused.

BC.053 PSAB considered this risk when developing the Statement of Principles. It is for this reason that both the Statement of Concepts and Statement of Principles noted that only PSAB would designate events[10] for recognition in this component, or any other component, and extrapolation to other events would not be allowed. This note is being brought forward to the proposed Conceptual Framework in paragraph 6.25 and is included in the proposed financial statement presentation standard paragraphs PS 1202.132, PS 1202.142 and PS 1202.144.

The component is consistent with the proposed Conceptual Framework

BC.054 Some respondents felt that the "accumulated other" component is not consistent with the conceptual framework.

BC.055 Chapter 6, "Financial Statement Objectives," of the Statement of Concepts and paragraph 6.25 of the proposed Conceptual Framework explain the concepts supporting the exclusion of some changes in an entity's financial position in a period from the surplus or deficit of that period. PSAB believes that creating the accumulated other component is consistent with the concepts in the proposed Conceptual Framework.

Reclassifying items previously recognized in accumulated remeasurement gains or losses or accumulated other to surplus or deficit

BC.056 Some respondents were concerned that the items recognized directly in accumulated other may never be reflected in surplus or deficit. The Statement of Principles noted the following:

10 Events include transactions.

If PSAB decides that a revenue or expense is to be reflected directly in net assets or net liabilities (i.e., in accumulated remeasurement gains or losses or accumulated other), it would then determine the following: (a) the component of net assets or net liabilities the revenue or expense would be reflected in; and (b) whether the revenue or expense would be recycled to surplus or deficit, and when.

Recycling [from accumulated remeasurements or accumulated other to a period's surplus or deficit] would not occur if there is no clear and objective basis for identifying: (a) the period in which recycling should occur; or (b) the amount that should be recycled.[11]

BC.057 In other words, reclassifying items previously recognized in accumulated remeasurement gains or losses or, if applicable, accumulated other, to the surplus or deficit of a future period(s), would generally occur. However, if there is no clear and objective basis for identifying:

(a) when to reclassify such items to surplus or deficit; or

(b) the amount of such items,

then these items would not be reclassified to the surplus or deficit of any period(s).

BC.058 Whether an item previously recognized in accumulated remeasurement gains or losses or accumulated other is subsequently reclassified to the surplus or deficit of a future period or periods and how the item is subsequently reclassified to surplus or deficit, is decided at the standards level. Such decisions depend on the item and what initial recognition and subsequent reclassification provides better accountability information.

BC.059 Some items initially recognized directly in a component of net assets or net liabilities may never be reclassified to the surplus or deficit of a future period or periods. These include potentially:

(a) endowment contributions received that are restricted in perpetuity, if PSAB decides to recognize the credit for such items directly in accumulated other when it develops a standard on endowments.

(b) first-time recognition of assets excluded from recognition under public sector accounting standards, if each recognition prohibition is reversed by PSAB, should PSAB require retroactive recognition of items previously prohibited from recognition.

(c) items required by ACCOUNTING CHANGES, Section PS 2120, to be recognized directly in net assets or net liabilities.

The need to recognize certain revenue and expense of a period outside of that period's surplus or deficit

BC.060 Some respondents noted that all revenues and expenses of a period should be recognized in the period's surplus or deficit. A pure asset and liability model requires all changes in net assets or net liabilities to flow through the surplus or deficit.

BC.061 The model proposed is an asset and liability–based reporting model. However, it will allow certain revenues and expenses to be recognized outside of the surplus or deficit of the period in which they arise, as directed by PSAB. This model builds on the existing model that allows certain revenues and expenses related to unrealized remeasurements to be recognized outside of surplus or deficit in a component of net assets or net liabilities.

BC.062 The reporting models of other standard setters also allow certain revenues or expenses to not be recognized in surplus or deficit in the period(s) they arise.

BC.063 A mechanism to recognize certain revenues and expenses of a period outside of that period's surplus or deficit is needed:

(a) to provide PSAB with an alternative in developing future standards; and

(b) to reflect the economic substance of currently unanticipated types of transactions or existing transactions not yet addressed in the PSA Handbook.

11 In this Exposure Draft, PSAB has decided to use the term "reclassify" rather than "recycle".

BC.064 Most changes in assets and liabilities (with a net effect on net assets or net liabilities) are recognized in surplus or deficit in the period they arise.

BC.065 Accounting theory for a stewardship-focused model substantiates distinguishing unrealized remeasurements from financial performance arising from replicable operating activities. This reflects an accountability emphasis on realized performance and recognizes the greater uncertainty associated with unrealized performance.

BC.066 It may also be appropriate in a stewardship-focused model to exclude from surplus or deficit the initial recognition of items that will be held solely for stewardship purposes; for example, heritage items, natural capital or perhaps endowments restricted in perpetuity.

BC.067 PSAB may also determine that other events are best recognized outside of surplus or deficit in the period they arise to reflect their economic substance for accountability purposes.

The accumulated other component is proposed to help PSAB ensure accountability for and understandability of the economic substance of items, transactions and other events

BC.068 Some respondents were concerned that the accumulated other component will create confusion as it is abstract and not well understood.

BC.069 Creating a reporting model that is understandable is a key factor in determining the most appropriate location for revenues and expenses recognized outside of surplus or deficit when they arise. In developing the Statement of Principles, PSAB felt that the proposed reporting model is understandable because:

- (a) financial position only comprises assets and liabilities and users understand assets and liabilities;
- (b) it facilitates a clear reporting of net assets or net liabilities; when explained and contrasted with their personal finances, the public can understand this indicator;
- (c) it does not include deferred inflows and outflows as elements, which stakeholders rejected because users do not understand them; and
- (d) it does not have a two-bottom-line or “other comprehensive income” approach on the statement of operations, which stakeholders rejected because such an approach may confuse users about what the “real” surplus or deficit indicator would be.

Providing transparent information

BC.070 Some respondents indicated that the accumulated other component would reduce transparency.

BC.071 PSAB is of the strong opinion that the reporting model is transparent. The newly created statement of changes in net assets or net liabilities captures all revenues and expenses arising in the period. The purpose of the statement is to be transparent with respect to those revenues and expenses recognized in the surplus or deficit of the period and those recognized directly in another component of net assets or net liabilities.

BC.072 The statement of operations would provide details of the revenues and expenses recognized in surplus or deficit for the period. A supplementary statement of remeasurement gains and losses may be used to provide expanded detail about unrealized remeasurements recognized in the accumulated remeasurement gains or losses component of net assets or net liabilities.

BC.073 PSAB also believes that it is being transparent in discussing the possibility of recognizing certain revenues and expenses in an “other” component of net assets or net liabilities in both the proposed Conceptual Framework and financial statement presentation standard. A few stakeholders indicated that the Board should not discuss such a component until it is used. The Board concluded it should be transparent about the possibility of using such a component in the future; creating this component is responsive to the feedback received and to emerging issues.

BC.074 The proposed financial statement presentation standard and the proposed Conceptual Framework are also transparent by explaining concepts and principles as much as possible, providing guidance where desired and required.

Additional components of net assets or net liabilities

BC.075 Some respondents encouraged PSAB to develop other components of net assets or net liabilities such as "accumulated externally restricted" to use for endowments, and "accumulated invested in capital assets".

BC.076 In developing the Statement of Principles, PSAB considered what features the reporting model might need to ensure that a future standard on endowments reflects the economic substance of endowment funds. The Board felt that "accumulated other" could be one recognition option that would be available to it under the new model that is not available in the current model. It would choose such an option if it concluded that such presentation better serves the accountability objective of financial reporting when it develops an endowment standard.

BC.077 PSAB concluded that a more detailed breakdown of the net assets or net liabilities components established by PSAB could be done in the notes. So, for example, entities that wish to provide a breakdown of accumulated surplus or deficit into categories (e.g., restricted funds, reserves or invested in capital assets) to show a different aspect of accountability of the entity can do so in the notes.

BC.078 The components PSAB created are those that are necessary for the mechanics and functioning of the reporting model to allow the various statements in the model to articulate.

"Other resources" and "other obligations"

BC.079 Some respondents encouraged PSAB to consider introducing "other resources" and "other obligations" to the Canadian reporting model rather than the "accumulated other" component of net assets or net liabilities.

BC.080 "Other resources" and "other obligations" are categories of financial position introduced in IPSASB's conceptual framework that do not satisfy the definition of an element.

BC.081 PSAB considered the use of "other resources" and "other obligations" in developing the Statement of Principles. The Board chose not to adopt these categories as it felt that:

(a) items that do not fall within the elements established within the proposed Conceptual Framework would not be well understood; and

(b) financial position should focus on assets and liabilities and the difference between them.

BC.082 PSAB believes that to improve accountability, entities should represent and explain their financial position and financial performance using building blocks that are familiar to the public, such as assets, liabilities and changes in them.

BC.083 The understandability imperative that flows from the accountability objective supports an approach that reports financial performance and financial position in terms that the public already understands. Accountability is not achieved when those to whom an entity is accountable cannot understand the financial statement information provided to them.

Statement of net financial assets or net financial liabilities

BC.084 The statement of net financial assets or net financial liabilities is a new statement. It presents the proposed revised net financial assets or net financial liabilities (currently known as net debt) calculation.

Revising the net financial assets or net financial liabilities (currently known as net debt) calculation

BC.085 PSAB believes that the meaning of the net financial assets or net financial liabilities (currently known as net debt) indicator as currently stated is appropriate. The Board is not proposing changes to the meaning of the indicator. However, it realized that the calculation of the indicator needed to be revisited to ensure it measured what it was meant to measure.

(a) A net financial asset position indicates that there are net financial assets available to provide services in the future and settle future financial liabilities.

(b) A net financial liabilities position indicates that additional financial assets are required in the future to settle financial liabilities incurred. It represents a lien on future financial assets and affects an entity's ability to finance its activities, provide services and settle its financial liabilities in the future.

BC.086 In reviewing the net financial assets or net financial liabilities calculation while developing the Statement of Principles, PSAB recognized that the calculation needed to be revisited as it was no longer measuring what it was originally intended to measure. The Board received feedback that certain items included in the calculation should be excluded. The existing calculation was initially used when all recognized liabilities would be settled with financial assets; there were no complex liabilities, such as those that now exist related to public private partnership arrangements, some capital transfers and non-financial performance obligations, that needed to be evaluated for inclusion in or exclusion from the calculation.

BC.087 As a result, the Statement of Principles proposed a new calculation for the indicator: "the difference between an entity's financial assets, other than those that are externally restricted and/or not available to settle liabilities, and liabilities, other than those that will not be settled through the use of financial assets."

BC.088 Some respondents to the Statement of Principles indicated the following:

(a) If a financial asset is not available to settle a liability, is it really a financial asset?

(b) Not all restricted financial assets should be excluded from the calculation as some can still be used to settle related liabilities. Under the proposals, two entities could have the same calculated amount, one with substantial restricted assets and one with none. Entities with more restricted financial assets may have less flexibility but not necessarily greater future resource requirements.

(c) The exceptions noted in the calculation are confusing and could lead to preparer/auditor debates.

Financial asset side of the calculation

BC.089 When developing the Statement of Principles and the proposed calculation, PSAB had two types of externally restricted assets in mind:

(a) funds received that are restricted by an external party and cannot be used other than for the stipulated purpose (i.e., amounts received must be used in a specified manner); and

(b) endowment receipts, where the principal is restricted.

Funds received that are externally restricted for a stipulated purpose

BC.090 If a restricted financial asset is always removed from the calculation, it would show the entity in a worse position. But in some cases, the entity has the financial asset to settle the related liability. In such cases, the restricted financial asset and the related liability should both be included in the calculation. Only externally restricted financial assets that are not available to settle liabilities should be removed from the calculation. For example, a financial asset and a related liability would be recognized and included in the net financial assets or net financial liabilities calculation when an entity receives:

(a) funds that are externally restricted for a stipulated purpose, and that purpose has not been satisfied as required by RESTRICTED ASSETS AND REVENUES, Section PS 3100;

(b) an operating transfer, until the transfer has been used for operations as required by GOVERNMENT TRANSFERS, Section PS 3410;

(c) a capital transfer or donation to acquire or develop a tangible capital asset, and that purpose has not been satisfied; and

(d) a capital transfer to acquire or develop a tangible capital asset and then use it to provide services, and the initial stipulation related to using the financial assets to acquire or develop the tangible capital asset has not been satisfied.

BC.091 FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.39 defines financial assets as "assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations." This definition is being retained in the proposed model. If externally restricted financial assets are not available to settle liabilities, they do not meet the definition of financial assets. An example of a restricted asset that is not available to settle liabilities is an endowment receipt where the endowed amount is restricted in perpetuity.[12]

Endowment receipts

BC.092 In 2016, PSAB's Public Sector Accounting Discussion Group discussed whether endowment receipts are financial assets or non-financial assets. No consensus on this question was reached. Some Group members focused on the nature of endowment receipts as generally comprising financial assets, often in the form of investments. Other Group members expressed concern with endowment receipts being recognized as financial assets as they would be seen as reducing net financial liabilities (currently known as net debt), but the principal cannot be used to discharge liabilities or finance future operations. To remove the effect of these perpetually restricted assets from the calculation of the indicator, these Group members felt that reporting endowment receipts as non-financial assets was appropriate even if they did not strictly meet the existing non-financial asset definition.

BC.093 In determining how to proceed with this issue, PSAB considered two main options:

(a) Option 1: Continue with the proposal in the Statement of Principles with a minor amendment (i.e., the calculation would be "financial assets, other than those externally restricted and not available to settle liabilities, less" the liabilities side of the calculation which is discussed below in the section "Liability side of the calculation").

(i) Respondents to the Statement of Principles indicated that exclusions to the calculation create confusion.

(ii) Additional guidance is needed on the exclusions. For endowments in particular, it may be difficult to provide useful guidance in a general financial statement presentation standard, given the complexities around endowments.

(b) Option 2: Remove the existing definition of non-financial assets and use the existing financial assets definition as the determinant of whether an asset is a financial or non-financial asset. Any asset not meeting the financial asset definition would automatically be classified as a non-financial asset. The first part of the calculation would be "financial assets." This would:

(i) indirectly deal with the endowments issue (i.e., endowments would fall in the non-financial asset classification) but also leave room for the possibility of future items being excluded from financial assets;

12 According to CONTRIBUTIONS – REVENUE RECOGNITIONS, paragraph PS 4210.02(b)(ii), "An endowment contribution is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time."

(ii) reduce the complexity in the first part of the calculation;

(iii) clarify that assets fall into one of only two categories, financial or non-financial assets;

(iv) ensure the non-financial asset definition is sufficiently broad to include economic resources not yet dealt with in standards; and

(v) yield an appropriate number for the indicator no matter what the credit entry of the endowment receipt is.[13] This assumes that amendments will be made to the liability side of the calculation. This is discussed further in the following section.

BC.094 PSAB decided to proceed with Option 2 (remove the existing definition of non-financial assets, use the existing financial assets definition as the determinant of whether an asset is a financial or non-financial asset and the first part of the calculation would be "financial assets"). This option will lead to a meaningful number for the indicator and reduce some of the complexity associated with the proposal in the Statement of Principles. This is important as the objective of revising the calculation was to restore the indicator to its original meaning and make the financial statements more understandable.

BC.095 One implication of this decision arises in relation to endowment investments. Since endowment contributions are generally invested, how would FINANCIAL INSTRUMENTS, Section PS 3450, apply if they are classified as non-financial assets? In the Exposure Draft, "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202," PSAB proposes consequential amendments to Section PS 3450 to refer to those assets and liabilities that are financial instruments as financial instrument assets and financial instrument liabilities. A financial instrument asset could then be presented as a financial asset or a non-financial asset, depending on how the asset can be used (i.e., whether the financial asset definition is met). PSAB is proposing to add an appendix with a decision tree for the presentation of assets to Section PS 3450 in the Exposure Draft, to illustrate this presentation question.

BC.096 The revenue earned on endowment contributions, if capitalized (i.e., reinvested), whether restricted or unrestricted, would not be excluded from the calculation if it could be used to settle liabilities or be spent on future operations.

Liability side of the calculation

BC.097 When developing the Statement of Principles, PSAB noted the following liabilities that would not be settled through the use of financial assets:

(a) a liability related to a capital transfer received that will be settled as the asset bought or built with the transfer (initial stipulation) is used to provide services (additional stipulations that give rise to paragraph PS 3410.23(c) obligations); and

(b) performance obligations that will not be settled through the use of financial assets.

Liabilities related to capital transfers received that will be settled as the related assets are used to provide services

BC.098 Capital transfers received may be recognized as liabilities until the related asset is bought or built or alternatively until the related asset is used as allowed by Section PS 3410.

BC.099 If stipulations only require a capital transfer recipient to buy or build a capital asset, the liability that arises will be settled through the use of financial assets (i.e., the government transfer received). As a result, this liability would be a financial liability and not be excluded from the calculation, nor would the related financial asset.

BC.100 In some cases, however, capital transfer stipulations alone or stipulations plus the transfer recipient's actions and communications require the transfer recipient to buy or build a capital

13 The review of the accounting of endowment contributions of a random sample of public sector entities revealed that there is much diversity. Such entities recognize endowment receipts either as financial or non-financial assets. Such entities recognize the "credit entry" as either a liability, revenue or direct recognition to net assets or net liabilities.

asset (initial stipulation) and then use it to provide services (additional stipulations). The financial assets received in the transfer are used to buy or build the capital asset, thus satisfying the initial liability. As the asset is acquired or built, however, a further liability may exist if additional stipulations alone or additional stipulations plus the transfer recipient's actions and communications require the recipient to use the tangible capital asset to provide services and this obligation meets the definition of a liability. This liability would not be settled through the use of financial assets, but rather would be settled as the asset is used to provide services. It should be excluded from the net financial assets or net financial liabilities calculation because it does not require future resources to fund it; it has already been funded. Some entities refer to this liability as "spent deferred capital contributions."

Performance obligations that will not be settled through financial assets

BC.101 Some performance obligations that will not be settled through financial assets will arise from the public private partnerships standard PSAB developed. The Exposure Draft for that standard stated in paragraph .60:

> The public sector entity may not have a contractual obligation to pay cash or another financial asset to the private sector partner in exchange for the design, build, acquisition or betterment of infrastructure. Instead, the public sector entity grants the private sector partner the right to earn revenue from third-party users or access to another revenue-generating asset as compensation.

BC.102 The liability (performance obligation) will be satisfied as the private sector partner uses the right granted to it over the term of the agreement (i.e., as performance under the agreement occurs). Such a liability (performance obligation) should not be part of the calculation because it is not settled through financial assets.

BC.103 Other performance obligations that will not be settled through financial assets include some types of unearned revenue. Such types of unearned revenue are generally settled over time by the entity providing in exchange for payment a degree of access (simple, exclusive, unrestricted, restricted, etc.) to a payor, such as access to part of the wireless spectrum.

The way forward

BC.104 In determining the way forward, PSAB considered two options:

(a) Option 1: Retain the exclusions from liabilities in the calculation of the indicator (as proposed in the Statement of Principles).

(b) Option 2: Create two categories of liabilities: financial liabilities and non-financial liabilities. Financial liabilities would be defined in terms of settlement through the use of financial assets, and that definition would determine whether a liability is financial or non-financial. The net financial assets or net financial liabilities (currently known as net debt) indicator would then be the difference between financial assets and financial liabilities.

BC.105 PSAB decided to proceed with Option 2 for the following reasons:

(a) This option would be consistent with the option selected for the assets to be included in the calculation.

(b) This option simplifies the calculation proposed in the Statement of Principles.

(c) Liabilities related to a capital transfer received that will be ultimately settled as the asset bought or built with the transfer is used to provide services would fall into the non-financial liabilities category. Such liabilities would not be settled through the use of financial assets as the related contribution has already been spent to buy or build the related asset. This option would yield an appropriate indicator as these liabilities should be excluded from it based on the discussion in the section "Liabilities related to capital transfers received that will be settled as the related assets are used to provide services," starting at paragraph BC.098.

(d) Those performance obligations that will not be settled through the use of financial assets would fall into the non-financial liabilities' category. This option would yield an appropriate indicator as such performance obligations should be excluded from it based on the discussion in the section "Performance obligations that will not be settled through financial assets," starting at paragraph BC.101.

BC.106 There are a few implications of this decision:

(a) The definition of financial liabilities would be removed from Section PS 3450, as that definition is narrow, relating only to financial instruments. A broader definition of financial liability would be included in new Section PS 1202. A definition of financial instrument liabilities would be added to Section PS 3450.

(b) A consequential amendment would be required to the government transfers standard to provide guidance on presenting capital transfers received as financial or non-financial liabilities. This would then assist the preparer in determining whether and when capital transfers received are to be included in, or excluded from, the calculation of the net financial assets or net financial liabilities indicator.

(c) A consequential amendment would be required to the public private partnerships standard under development to add guidance in relation to the presentation of liabilities as financial or non-financial. This would then assist the preparer in determining whether public private partnership obligations are to be included in, or excluded from, the net financial assets or net financial liabilities calculation.

BC.107 The consequential amendments related to paragraph BC.106(a) and (b) are proposed in the Exposure Draft, "Consequential Amendments Arising from the Financial Statement Presentation Standard, Proposed Section PS 1202."

BC.108 By revisiting its proposals for exclusions from the calculation, and instead providing clear distinctions between financial and non-financial assets and financial and non-financial liabilities, PSAB hopes to decrease any risk of miscommunication or debate that the exclusions proposed in the Statement of Principles may have caused, as well as any possible inconsistency in application.

BC.109 Endowments and certain public private partnerships obligations have been identified as examples of items that would be excluded from the net financial assets or net financial liabilities calculation even though these standards have not yet been developed or finalized. The proposals are meant to illustrate the possible application of the proposed definitions to issues on PSAB's current and future technical agenda. They give PSAB the ability to resolve future issues and thus allow the reporting model to be aspirational.

Benefits of the proposed net financial assets or net financial liabilities (currently known as net debt) calculation

BC.110 The following are the benefits of the proposed calculation:

(a) The calculation will be clearer; there will be no ins and outs to debate. The definitions of financial and non-financial assets and financial and non-financial liabilities are straightforward to apply and guidance for distinguishing the two classifications of assets and liabilities is provided.

(b) By virtue of the definition changes, items that PSAB may consider in the future, such as endowments and intangibles, can easily fit into one of the two asset categories. These items may not fit well in the asset categories as defined in the existing conceptual framework.

(c) By virtue of these proposed definition changes, it will be clear that items currently called "spent deferred capital contributions" by some entities will be non-financial liabilities excluded from the calculation.

(d) It provides an opportunity to rename the indicator.

Renaming the net debt indicator

BC.111 Some respondents to the Statement of Principles encouraged PSAB to rename the net debt indicator. They felt that the "net debt" label:

(a) could be confused with "total debt", "long term debt", "issued debt net of sinking funds" or "net liabilities";

(b) does not resonate well with its meaning (future resources required to settle past spending).

BC.112 They also indicated that the calculation of the indicator is based on liabilities that include debt and other liabilities, and so should reference liabilities, not just debt.

BC.113 The introduction of a financial liabilities category presented the opportunity to reflect on whether net debt should be renamed "net financial liabilities". In previous discussions, this phrase was suggested by various stakeholders. However, it was not appropriate at the time because no financial liabilities category existed. Now that a financial liabilities category is proposed, PSAB is also proposing to rename the term "net debt" to "net financial liabilities". PSAB did consider other names such as "unfunded past spending" or "future spending burden" but believes that "net financial liabilities" is most appropriate.

BC.114 Replacing the term "net debt" with "net financial liabilities" may help users distinguish the indicator from the terms "debt", "gross debt" or "total debt". However, because the term "net debt" is used in comparison to gross domestic product, and this ratio is used widely in evaluating the finances of senior governments, PSAB acknowledges replacing the term may cause some confusion initially.

Applicability of the net financial assets or net financial liabilities indicator

BC.115 After considering the feedback received by some respondents and reviewing the reporting of various types of public sector entities, PSAB recognized the possibility that the net financial assets or net financial liabilities indicator may not provide useful accountability information for the users of all public sector entities. Determining its applicability would be a standards-level decision of PSAB.

Statement of change in net debt or net financial assets

BC.116 In the Statement of Principles, PSAB proposed to discontinue the requirement to present a statement of change in net debt or net financial assets for the following reasons:

(a) Some stakeholders voiced concern that the statement is not understandable and, so, does not provide useful accountability information.

(b) The Board attempted to amend the presentation of the statement; however, even the alternative presentations were confusing.

BC.117 The majority of respondents agreed with the proposal to remove the statement of change in net debt or net financial assets.

BC.118 However, some respondents disagreed with the proposal and were concerned that important accountability information was being lost, such as:

(a) the relationship between the indicator and non-financial assets;

(b) how the entity's investment in or use of prepaid service capacity (primarily in the form of tangible capital assets) has impacted the entity's ability to respond to service needs and its continued resource requirements;

(c) the impact of remeasurement gains or losses on net financial liabilities or net financial assets in the period; and

(d) the budgeted net financial liabilities or net financial assets amount and change in it.

BC.119 Respondents also indicated that removing the requirement to present a statement of change in net debt or net financial assets further diminishes the importance of the net financial liabilities or net financial assets indicator. Relegating the actual-to-budget comparison of capital expenditures to the notes was also a related issue for some.

BC.120 As a result of this feedback, PSAB decided that the presentation of the change in net financial assets or net financial liabilities would be optional. If an entity chooses to present the change in net liabilities or net financial assets, it would do so on the new statement of net financial assets or net financial liabilities, as long as the information presented is understandable and useful for accountability purposes.

Disclosing actual-to-budget capital expenditures in the notes to the financial statements

BC.121 In the Statement of Principles, PSAB proposed that the requirement to present actual capital expenditures compared with those budgeted, which exists as part of the current statement of change in net debt in paragraphs PS 1201.100 and PS 1201.131, should be retained and added as a disclosure requirement at the standards level. PSAB is of the strong opinion that this comparison is important because:

(a) many public sector entities have significant holdings of tangible capital assets representing significant service capacity; and

(b) the extent of capital spending in the period is important accountability information for users; comparing the extent of capital expenditures to depreciation expense of capital assets in the period provides information useful in evaluating the extent to which the capital assets of the entity are being used up or replaced.

BC.122 There was general support for the proposal. In developing the Statement of Principles, PSAB felt that one of the most important aspects of the existing statement of change in net debt is the comparison of the actual spending on capital assets to the amount budgeted.

BC.123 Some respondents requested additional guidance about the extent of the required disclosure. The disclosure would include the total actual and budgeted capital expenditures. The budget requirements that apply to the statement of operations, in terms of how amounts are determined, would also apply for budgeted capital expenditures.

BC.124 If an entity chooses to present the change in net financial assets or net financial liabilities on the statement of net financial assets or net financial liabilities and that statement also reports the total actual and budgeted capital expenditures, then separate note disclosure is not required.

Disclosure requirements for entities without capital asset budgets

BC.125 The Statement of Principles made the case that the budget is a fundamental component of the financial accountability cycle in the public sector. If an entity does not prepare a capital budget, this should be disclosed.

What should the budget include?

BC.126 The Statement of Principles states that “The approved original budget is the budget that was … approved by the appropriate authority, generally at or near the beginning of the reporting period. It is the budget for which an entity is held accountable.” As a result, the budget should include those amounts approved by the appropriate authority.

Can an amended capital budget be used?

BC.127 Capital budgeting can be very different from budgeting for operations. Capital projects may involve single-year acquisition or construction. But there are also larger capital projects that involve acquisition or construction over multiple years. For single-year capital projects, an original budget is generally compiled and approved in the same manner as budgeting for operations.

However, a multi-year capital project budget may give rise to a series of in-year budgets that include revised capital expenditure estimates. Ideally, the overall multi-year capital plan would be reviewed each year to determine the funding requirements for the estimated in-year capital expenditures. The related in-year estimated capital expenditures would then be approved and become the original capital budget for comparative purposes of that year. For multi-year capital projects, the actual-to-budget comparison would be limited to the in-year estimated amounts and not the amended total expenditures expected for the overall capital project. Comparing overall capital spending estimates to overall actual capital expenditures may provide useful asset management information. However, for the purposes of the financial statements, the comparison required is limited to the originally approved estimated in-year capital expenditures.

Statement of changes in net assets or net liabilities

BC.128 The statement of changes in net assets or net liabilities is a new statement. It presents a reconciliation between the opening and closing balances of each component of net assets or net liabilities.

BC.129 All revenues and expenses arising in the period are captured in the statement of changes in net assets or net liabilities. The purpose of this statement is to be transparent with respect to those revenues and expenses recognized in surplus deficit of the period and those recognized directly in net assets or net liabilities.

BC.130 Most respondents to the Statement of Principles agreed with adding this statement.

BC.131 The introduction of various components of net assets or net liabilities makes this statement necessary to allow users to see:

(a) all revenues and expenses of the period; and

(b) a snapshot in one statement of the nature of the various components and what is recognized in them.

BC.132 The statement of changes in net assets or net liabilities articulates with:

(a) the statement of operations: the surplus or deficit of the period is presented in the accumulated surplus or deficit section of the statement of changes in net assets or net liabilities and links to the surplus or deficit total indicator on the statement of operations; and

(b) the statement of financial position: each component in the statement of changes in net assets or net liabilities links to each component of net assets or net liabilities reported on the statement of financial position.

BC.133 PSAB considered a columnar format to show the reconciliation. The Board is of the view that it looked more visually complex than the one proposed. Also, it was difficult to compare two periods as they did not appear side by side.

Accumulated remeasurement gains and losses

BC.134 The accumulated remeasurement gains and losses component of net assets or net liabilities would present similar information about remeasurements required in the existing statement of remeasurement gains and losses.

BC.135 When developing standards, PSAB may require that revenues and expenses arising from unrealized remeasurements in addition to those related to financial instruments and foreign currency be recognized in the accumulated remeasurement gains and losses component.

BC.136 An entity may retain a statement of remeasurement gains and losses to show the details related to this component of net assets or net liabilities if such detail is deemed excessive for an understandable statement of changes in net assets or net liabilities. However, a supporting statement or schedule of remeasurement gains and losses is not mandatory.

Accumulated other

BC.137 PSAB has not identified any revenues and expenses to be recognized directly in the accumulated other component of net assets or net liabilities.

BC.138 Refer to paragraphs BC.046-BC.049 for more information on this component.

Guidance to include with the accumulated other component

BC.139 The guidance related to the accumulated other component is included in proposed Section PS 1202.

BC.140 That guidance explicitly:

(a) restricts the use of any component of net assets or net liabilities to those specific situations permitted by PSAB. Entities would not be permitted to include items in “accumulated other” by analogy. This restriction would ensure consistent treatment.

(b) indicates that standards alone specify if and when amounts previously recognized in accumulated remeasurement gains and losses and, if applicable, accumulated other, are reclassified to the statement of operations.

Share capital

BC.141 This component would only be presented by those entities that have issued share capital.

BC.142 For a government reporting entity, this component, if material, could be described as “share capital in controlled entities” to avoid any implication that the government itself has issued share capital.

BC.143 It is important to show this component separately for transparency and because it is different in substance from the accumulated remeasurement gains or losses or accumulated other components.

BC.144 In Chapter 6, “Financial Statement Objectives,” the proposed Conceptual Framework signals that some items can be recognized directly in a component of net assets or net liabilities. Only PSAB can identify the components of net assets or net liabilities. For those public sector entities that have equity ownership interests in the form of issued share capital, the Board decided to recognize their existence in a component of net assets or net liabilities, called “share capital”.

BC.145 In determining whether a transaction is “issued share capital” or something else, such as a government transfer or a loan, the substance of the transaction must be carefully reviewed. As indicated in Chapter 7, “Financial Statement Information – Qualitative Characteristics and Related Considerations,” of the proposed Conceptual Framework, “substance over form” is an aspect of faithful representation, a qualitative characteristic of financial information. The general presentation principles proposed in Section PS 1202 reiterate the importance of reflecting the economic substance of items, transactions or other events in financial statements.

Statement of cash flow

BC.146 The main amendment to the statement of cash flow is the isolation of financing activities.

BC.147 Highlighting the net cash available or the cash deficiency before financing activities after opening cash and cash equivalents and all other categories of inflows and outflows of cash for the period are presented, makes the cash flow statement more understandable to users. This presentation would show whether all of an entity’s other activities combined resulted in the need for cash to be raised through financing activities or not. The proposed presentation highlights one aspect of the entity’s sustainability. Reporting sustainability is an important dimension of accountability reporting recognized by many respondents to Consultation Papers 1 and 2.

Comparing actual financial performance to that budgeted

BC.148 Paragraph PS 1201.130, states: “The statement of operations should present a comparison of the results for the accounting period with those originally planned. Planned results should be presented for the same scope of activities and on a basis consistent with that used for actual results.” For the revised financial statement presentation standard, PSAB is proposing to continue to require the original budget to be presented on the statement of operations. Greater clarity in the proposed wording specifies that the requirements include use of a budget with the same basis of accounting, following the same accounting principles, for the same scope of activities and using the same classifications as the actual amounts, rather than only referencing “scope” and “a basis”.

BC.149 PSAB does not set standards for the budget. Budgets are policy documents. The proposed principles are intended to encourage the budget to be prepared on the same basis of accounting, using the same accounting principles, for the same scope of activities and using the same classifications as the financial statements. If budgets are prepared in the same way that the financial statements are prepared, reconciliations between the approved budget and the budget presented on the face of the statements are minimized or eliminated. This would increase the accountability value of the information provided by the financial statements, as reconciliations and restatements may be difficult for users to understand.

BC.150 Paragraph PS 1201.133 indicates that in circumstances where the accounting basis used in the budget is inconsistent with that used to prepare the financial statements, the budget would be restated to be on the same basis. A reconciliation of the restated budget with that originally approved would need to be provided. The restated amounts would appear on the statement of operations. PSAB intends to keep this requirement and expand on it slightly. When the basis of accounting, principles or classifications 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 statement of operations. Note disclosure or a schedule would reconcile the restated budget numbers back to those approved in the original budget. Reconciling items will be specific to each individual entity and determining them is left to professional judgment. For example, entities that do not budget on a full accrual basis may not have an approved budget number for amortization. So, an entity would need to use professional judgment to determine the budget amount for amortization that would be included on the statement of operations.

When the scope of the budget differs from that of the financial statements

BC.151 In the Statement of Principles, PSAB proposed that when the scope of activities in the budget is not the same as the scope of activities in the financial statements (i.e., not all controlled entities are included in the approved consolidated budget), a note would be required on the face of the statement of operations explaining why the actual-to-budget comparison could not be done. The intent of the proposal was to eliminate “scope” reconciliations that were not understandable, consistent with the need for understandable information to achieve the accountability objective.

BC.152 Some respondents indicated that this proposal reduced the accountability value of financial statements because it opened the door for no budget comparison to be provided.

BC.153 PSAB considered this feedback and concluded that it should narrow the circumstances in which a note would be required on the statement of operations to indicate and explain why an actual-to-budget comparison could not be done. The Board is of the strong opinion that it is in the public interest to have an actual-to-budget comparison on the statement of operations for accountability purposes, whenever possible. To do so, a reporting entity would need to show a reconciliation with scope adjustments in the notes. The scope adjustments would be the approved budgets of those controlled entities that were not included in the approved consolidated budget for the reporting entity. This proposal would be similar to the requirement relating to when the “basis, classifications or principles” used for the budget are different from those of the actual amounts on the financial statement. In circumstances where the accounting basis, classifications, principles or scope used in the budget is inconsistent with that used to prepare the financial statements, the budget would be restated to be on the same basis, using the same principles and classifications and with the same scope. A reconciliation of the restated budget with that originally approved would need to be provided in the notes. The restated amounts would appear on the statement of operations.

BC.154 However, if the reporting entity does not have an approved budget for a controlled entity (or for any government component forming part of the reporting entity) being consolidated, and that entity is material, then the actual-to-budget comparison cannot be done. In this case a note would be required, on the face of the statement of operations, to indicate and explain why the actual-to-budget comparison could not be done. A possible example of the note that would be included on the statement of operations is:

> "The actual-to-budget comparison could not be provided as the approved budget does not include a budget for all material organizations the reporting entity controls."

BC.155 The intent of this proposal is to encourage entities to budget for the full scope of their activities, including those of their components and controlled organizations.

What happens in those situations where the scope of the reporting entity has changed during the accounting period?

BC.156 PSAB recognizes that it is possible for the scope of the reporting entity to change during the accounting period. When the scope of the reporting entity changes during the year due to decisions made with information that was not available when the budget was being approved, the reporting entity would present the original approved budget on the statement of operations.

BC.157 The presentation of the original approved budget on the statement of operations provides good accountability information:

(a) Users can see that the scope changed during the accounting period through explanations in other parts of the financial statements or in the Financial Statement Discussion and Analysis (FSD&A).[14]

(b) Since the entity budgeted for the scope that existed at the time the budget was approved, it is more transparent for it to be held accountable for the planned scope of activities, while being allowed to explain the extent to which events during the period changed the scope of its activities.

Use of an amended budget

BC.158 In the Statement of Principles, PSAB specified three circumstances in which an amended budget may be used.

BC.159 The majority of respondents agreed with the proposal. However, some respondents raised concern with permitting the use of an amended budget when a government organization experiences significant change in the period. These respondents noted that the situation was too broad and could result in many scenarios, thereby reducing the accountability value of the financial statements. Some of these situations may even be those for which PSAB has already concluded that the use of an amended budget would not be permitted, such as these noted in the Statement of Principles:

(a) A public sector entity receives additional funds after the budget has been approved for the delivery of a new program. Funding announcements made during the period, once the budget has been approved, are common in the public sector and often do not trigger the creation of a new budget that gets approved. PSAB thinks that the users' best interests are served by explaining the variance [in an FSD&A] rather than presenting an amended budget.

14 Statement of Recommended Practice (SORP) 1, *Financial Statement Discussion and Analysis,* provides guidance in relation to preparing an FSD&A. Preparing an FSD&A is not mandatory.

(b) A public sector entity may need to react to unexpected events, such as fires, floods, financial crises or health pandemics. Often, such events do not trigger the creation and approval of a new budget but rather an update. As a result, PSAB believes that the users' best interests are served by explaining the variance [in an FSD&A] rather than presenting an updated forecast as the budget for financial statement comparison purposes.

BC.160 After consideration of the feedback, PSAB decided not to allow use of an amended budget when a government organization experiences significant change in the period.

BC.161 PSAB decided to allow the use of an amended budget only when there has been a decision by the public to change governance, such as when an election has been held. In that case, a new government is elected, and that government should be held accountable to a new approved budget. The idea behind this decision is that the purpose of financial statements is to provide accountability to the public and its elected or appointed representatives. When the public decides to change those representatives and their mandate, then use of an amended approved budget may be appropriate.

EFFECTIVE DATE AND TRANSITION

BC.162 In deciding on a transition period, PSAB noted that because its proposals affect presentation only, they should be more straightforward to implement than changes affecting recognition and measurement. The Board looks forward to your thoughts on whether the proposed 18-month transition period (from the time the Section is included in the PSA Handbook) would allow sufficient time for entities to make any necessary updates to their systems, collect the information needed to restate comparatives and resolve any operational challenges.