

# Statement of Principles

## Entity Level Financial Statements

prepared by:  
Public Sector Accounting Board

July 2009

Comments are requested by September 28, 2009

# PSAB

## **Commenting on this Statement of Principles**

This Statement of Principles is issued by the Public Sector Accounting Board. The members of the Board are drawn from government, legislative auditors, public accounting, business and academe. All members serve as individuals and not as representatives of their governments, employers, or organizations.

Statements of Principles propose key principles and definitions that the Board expects to include in a future Exposure Draft.

Individuals, governments and organizations are invited to send written comments to the Board on the principles and definitions set forth. Comments are requested from those who agree with this Statement of Principles as well as from those who do not.

For your convenience, a PDF response form has been posted with this document that can be downloaded [here](#). You can save the form both during and after completion for future reference. You are not restricted by the size of the interactive comments fields in the response form and there is also a general comments section.

Alternatively, you may send written comments by e-mail in Word format to:  
[ed.psector@cica.ca](mailto:ed.psector@cica.ca)

All comments received will be available on the website at [www.psab-ccsp.ca](http://www.psab-ccsp.ca) ten days after the comment deadline, unless confidentiality is requested.

**To be considered, comments must be received by September 28, 2009, addressed to:**

**Tim Beauchamp, Director  
Public Sector Accounting  
The Canadian Institute of Chartered Accountants  
277 Wellington Street West  
Toronto, Ontario, M5V 3H2**

## Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received on this Statement of Principles (SOP), to expose ENTITY LEVEL FINANCIAL STATEMENTS, as new CICA Public Sector Accounting Handbook (PSA Handbook) material. The Section would apply to all other government organizations that are directed to or choose to use the PSA Handbook as their source of generally accepted accounting principles (GAAP).

## Main features

The main features of this SOP are as follows:

- Nothing in this SOP requires a government to prepare entity level financial statements. A government may choose to issue entity level financial statements for its ministries, departments or other entity level. The financial statements may be special purpose or general purpose financial statements, depending on the objectives of the government.
- This SOP proposes principles that apply to entity level financial statements that are general purpose financial statements and are prepared using the PSA Handbook as the primary source of GAAP.
- Based on the conceptual framework of the PSA Handbook, the SOP proposes principles dealing with financial statement items that are unique to the entity level.

## Background

The PSA Handbook sets out generally accepted accounting principles (GAAP) for governments in Canada. Its Introduction allows other government organizations to choose their source of GAAP from either the PSA Handbook or the CICA Handbook – Accounting, unless directed otherwise.

Whereas the PSA Handbook is directed towards a government as a whole, some of the accounting issues faced by other government organizations have not yet been addressed in the PSA Handbook. The SOP proposes guidance to government organizations (entities) that source their GAAP from the PSA Handbook.

## Comments requested

PSAB welcomes comments, both positive and negative, on all aspects of the SOP. Comments are most helpful if they relate to a specific principle, paragraph or group of paragraphs and, when expressing disagreement, they clearly explain the problem and indicate a suggestion, supported by specific reasoning, for alternative wording.

For your convenience, a PDF response form has been posted with this document that can be downloaded [here](#). You can save the form both during and after completion for future reference. You are not restricted by the size of the interactive comment fields in the response form and there is also a general comments section.

Alternatively, you may send written comments by e-mail in Word format to: [ed.psector@cica.ca](mailto:ed.psector@cica.ca)

In particular, respondents are requested to provide responses to the following questions:

1. Do you agree with the scope of the SOP to apply to those government entities that apply the PSA Handbook, and that all of the standards of the PSA Handbook should apply to general purpose entity level financial statements?
2. Do you agree that appropriations received or receivable from an entity's controlling government should be reported at gross amounts in arriving at surplus or deficit for the period?
3. Do you agree that intra-government transactions should be recognized in the financial statements on a gross basis by both the providing and recipient entities, and that the providing entity of an intra-government goods or services should determine the amount to be recognized by the recipient entity?
4. Do you agree that each entity should recognize its proportionate share of the cost in a cost sharing arrangement with third parties outside the government?
5. Do you agree that an entity should report agency activities in its financial statements and that administered activities should be excluded from its financial statements?
6. Do you agree that comparative and budget figures should be provided in entity level financial statements on a basis consistent with the scope and mandate of the entity?
7. Do you agree that additional disclosure in entity level financial statements should include the authority and purpose of an entity and a reconciliation of appropriations recognized in the financial statements to authorized amounts?
8. Do you agree with the recommended disclosures of related party transactions?

# Entity Level Financial Statements

## TABLE OF CONTENTS

	PARAGRAPH
<b>Introduction</b> .....	.01-.13
Characteristics of a government entity .....	.06-.07
General purpose versus special purpose financial statements .....	.08-.13
General purpose financial statements .....	.09-.11
Special purpose financial statements or reports .....	.12-.13
<b>Purpose and scope</b> .....	.14-.32
Financial statements .....	.18-.22
Elements of financial statements .....	.23-.32
<b>Entity level specific items</b> .....	.33-.59
Assets and liabilities .....	.33-.34
Revenues and expenses .....	.35-.59
Appropriations .....	.36-.41
Intra-government transactions .....	.42-.53
Cost sharing .....	.54-.55
Agency versus administered activities .....	.56-.59
<b>Presentation</b> .....	.60-.73
Comparative figures .....	.69-.73
<b>Disclosure</b> .....	.74-.79
Authority and purpose of entity .....	.74
Appropriations .....	.75
Related party transactions .....	.76-.79
<b>Decision Tree</b> .....	Appendix A

## INTRODUCTION

- .01 Legislative<sup>1</sup> control over finances is essential to responsible government. All costs, spending, revenue raising, investing and borrowing must be sanctioned by legislation. Legislation may provide direct authority to entities to carry out these activities. Due to the legislature's providing financial authority and power, it has the right and responsibility to hold government entities accountable for the management of financial affairs and the use of resources.
- .02 Governments carry out policies and deliver goods and services through a variety of entities. Some are integral to the overall government organization through which the government directly performs its executive function, while others are separate corporate entities. To help users understand and assess the management of the public financial affairs and resources entrusted to these entities, financial statements would account for the full nature and extent of the financial affairs and resources which an entity controls.
- .03 Legislators seek assurance that the financing and operations were carried out in accordance with the authorities and powers granted. Together with the public, legislators are interested in assessing the entity's performance in the management of financial affairs. Entity level financial statements are designed to provide information that is useful in demonstrating this assurance and in making these assessments.
- .04 The Introduction to Public Sector Accounting Standards (Introduction) directs governments to follow the standards of the PSA Handbook for generally accepted accounting principles (GAAP). It allows other government organizations to choose their source of GAAP from either the PSA Handbook or the CICA Handbook – Accounting, unless directed otherwise. The CICA Handbook – Accounting sets out the standards for private sector enterprises and not-for-profit organizations in Canada.
- .05 The PSA Handbook currently provides detailed GAAP for financial statements published by a government that report on the financial position and changes in financial position of the government reporting entity. This Section provides additional standards to address the unique features of certain government organizations within the government reporting entity that choose or are directed by their government to follow the PSA Handbook as their source of GAAP. Other government organizations may include, but are not limited to, ministries, departments, agencies, commissions and boards.

---

<sup>1</sup> For local governments, the term “legislature” means “council”.

## Characteristics of a government entity

- .06 Characteristics of a government entity may include:
- (a) having been delegated the authority to deliver a specified mandate;
  - (b) having been provided the ability to raise, consume, deploy or manage public resources;
  - (c) providing services, through either exchange or non-exchange transactions, to parties either within or outside of the government, or both;
  - (d) receiving government funding to finance the provision of goods and services; and
  - (e) separate incorporation.
- .07 SEGMENT DISCLOSURES, paragraph PS 2700.08, provides guidance on identifying segments for grouping activities of a government including the type of management information to consider. That guidance may be useful in identifying entities within a government.

### Principle 1

A government may choose to issue entity level financial statements for its ministries, departments or other entity level.

## General purpose versus special purpose financial statements

- .08 When a government chooses to issue entity level financial statements, it must determine whether they are general purpose financial statements or special purpose financial statements.

### General purpose financial statements

- .09 Entity level financial statements may be provided to the legislature and external users as a means by which to assess the performance of a reporting entity within a government. In these instances, the financial statements are general purpose financial statements.
- .10 In the public sector, a fundamental principle of accountability requires entities to report credible financial information to their legislatures and stakeholders. The credibility of financial statements is enhanced when they are:
- (a) relevant;
  - (b) reliable;
  - (c) comparable;
  - (d) understandable;
  - (e) clearly presenting the financial position, results of operations, changes in cash flow and changes in net debt of a government entity for the reporting period; and
  - (f) prepared and interpreted under common definitions of terms and measurements.

- .11 General purpose financial statements that are prepared in accordance with GAAP established by an independent standard-setting body satisfy the characteristics listed in paragraph .10. General purpose financial statements prepared according to GAAP are comparable across jurisdictions and over time.

### **Special purpose financial statements or reports**

- .12 Alternatively, when financial statements are prepared specifically to address only certain aspects of an entity's responsibilities or special reporting requirements, those financial statements or reports can be designed to suit the special needs of a user, and are special purpose financial statements or reports.
- .13 Special purpose financial statements or reports can be prepared according to a prescribed set of requirements (for instance, rules established by the government, by legislation, or in the original mandate of the entity about which the reports are prepared). The requirements vary to satisfy the specific needs and objectives for these special purpose financial statements that report on specific aspects of the entity. When the requirements are within the range of acceptable choices allowed by the PSA Handbook, the basis of accounting can be described as being in accordance with GAAP. However, when the requirements are outside the acceptable range, they cannot be so described and may not be comparable to a GAAP set of financial statements. It must be made clear to readers that the reports are not general purpose statements and are not to be read as such.

### **Principle 2**

The financial statements may be special purpose or general purpose financial statements, depending on the objectives of the government.

## **PURPOSE AND SCOPE**

- .14 This Statement of Principles (SOP) is intended to provide additional guidance to those government entities who are directed to use or choose to apply the PSA Handbook as their source of GAAP in the preparation of their general purpose financial statements.
- .15 This SOP does not apply to special purpose reports.
- .16 This SOP is not intended to override any of the guidance provided to governments or entities controlled by governments in the Introduction. The SOP is not intended to mandate the issuance of financial statements by government entities.
- .17 The Decision Tree in Appendix A may be useful in determining if this Section applies to a particular set of circumstances.

### **Principle 3**

The SOP applies to those government entities that apply the PSA Handbook as their source of GAAP for the preparation of general purpose financial statements.

#### **Financial statements**

- .18 Financial statements are published by a government entity and report on the financial position and changes in financial position of the government reporting entity. Financial statements include the notes and schedules supporting the statements.
- .19 The principles and the concepts identified in the conceptual framework of the PSA Handbook, including the qualitative characteristics of financial information, result from financial statement objectives.
- .20 Financial statement objectives identify goals and purposes, and define the nature of the information needed to meet the requirements of the statement users. Analysis of financial statement objectives must first start with an analysis of the purpose of the entity. In general, government entities provide public goods and services and redistribute wealth for a variety of social and economic purposes. The provision of goods and delivery of services do not generally give rise to revenues, and receipt of tax monies does not result in a direct obligation to provide the payer with a particular service or benefit from government entities. Due to the power of a government to tax, its revenue is not substantially dependent on voluntary contributions or the profitable sale of goods or services in the marketplace. Except for commercial-style activities, the relationship between revenues and expenses in a period is not the same for government as for private sector enterprises.
- .21 Users need information that helps them assess the entity's results in the management of its resources and financial affairs. Financial information that makes it possible to identify variances, compute trends and analyze operations is useful in fulfilling this need. A comparison of actual results with those originally forecast by the fiscal budget, and with those of prior periods, is necessary to identify significant variances. To facilitate meaningful comparisons, budgeted and prior period results would be reported on a scope of financial activities that is consistent with that used to report the actual results of the current period. Where it is not possible for an entity to compare actual results to authorized budgets, note disclosure should provide this explanation.
- .22 The objectives of financial statements define the nature of the information needed to meet the requirements of the users of the statements. Substantial agreement on the objectives by both the users and preparers of the financial statements is requisite to setting appropriate accounting and reporting standards. If standards were set without agreement on objectives, there would be no basis for preferring

one standard over another or judging the effectiveness of alternative standards in fulfilling the purposes of the financial statements.

#### **Principle 4**

Government entities that use the PSA Handbook should adopt all of the standards in the PSA Handbook.

#### **Elements of financial statements** (see FINANCIAL STATEMENT CONCEPTS, Section PS 1000)

- .23 The key to general purpose financial statements is recording the elements as defined in the conceptual framework of the PSA Handbook. Elements of financial statements are the basic categories of items portrayed therein in order to meet the objectives of financial statements.
- .24 There are two types of elements:
- (a) those that describe the economic (financial and non-financial) resources, obligations and accumulated surplus or deficit of a government at a point in time (assets and liabilities); and
  - (b) those that describe the changes in economic resources, obligations and accumulated surplus or deficit over time (revenues and expenses).
- .25 Notes to financial statements are not elements. They provide clarification or further explanation of the items in the financial statements, and profile items that are not recognizable in the financial statements that a prudent user might find useful when assessing the entity's financial condition.
- .26 Items that meet the definitions of the four elements can be included in the financial statements, provided they are recognizable and can be measured. An item that meets the definition of one of the elements and does not meet the recognition criteria cannot be recognized in the financial statements but can be identified in the notes to the financial statements.
- .27 Assets have three essential characteristics:
- (a) they embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
  - (b) the entity can control access to the benefit; and
  - (c) the transaction or event giving rise to the entity's control of the benefit has already occurred.
- .28 Liabilities have three essential characteristics:
- (a) they embody a duty or responsibility to others, leaving an entity little or no discretion to avoid settlement of the obligation;
  - (b) the duty or responsibility to others entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic

- settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and
- (c) the transactions or events obligating the entity have already occurred.
- .29 Revenues, including gains, are characterized as increases in economic resources, either by way of increases in assets or decreases in liabilities, resulting from operations, transactions and events of the accounting period.
- .30 Revenues can arise from:
- (a) taxation;
  - (b) the sale of goods;
  - (c) the rendering of services;
  - (d) the use by others of entity economic resources including rent, interest, royalties or dividends; or
  - (e) the receipt of contributions such as grants, donations and bequests.
- Revenues do not include borrowings, such as proceeds from debt issues or transfers among entities within the reporting entity or amounts collected on behalf of others.
- .31 Expenses, including losses, are characterized as decreases in economic resources, either by way of decreases in assets or increases in liabilities, resulting from the operations, transactions and events of the accounting period.
- .32 Expenses include the cost of economic resources consumed in and identifiable with the operations of the accounting period. For example, the cost of tangible capital assets is amortized to expenses as the assets are used in delivering programs. Expenses do not include debt repayments or transfers among entities within the reporting entity.

#### **Principle 5**

Assets, liabilities, revenues and expenses are the only elements that should be recognized in entity level financial statements.

## **ENTITY LEVEL SPECIFIC ITEMS**

### **Assets and liabilities**

- .33 Entities may have access to assets, for instance, bank accounts. However, whether these are assets of the entity depends on who has control over them. In order for an asset to be recognized on the statement of financial position of an entity, it must possess the three essential characteristics of an asset. The most problematic asset characteristic at the entity level may be that the entity does not control access to the benefit. For instance, government entities do not normally control access to bank accounts. Alternatively, a government entity may have been designated by its government to exercise control over tangible capital assets, as

demonstrated by stewardship responsibility and the ability to control physical access to the benefit.

- .34 Regarding bank debt, if the entity did not borrow the funds or set up the facility in its own name on its own account, or the funds were not borrowed by the government expressly for use by the entity, then it is unlikely the debt is a liability of the entity. Regarding employee future benefits, the application of the standards in RETIREMENT BENEFITS, Section PS 3250, will determine whether an entity recognizes a liability for its pension plan.

## **Revenues and expenses**

- .35 The main issues with entity level financial statements are:
- (a) recognizing, measuring and/or disclosing appropriations ;
  - (b) recognizing, measuring and/or disclosing intra-government transactions;
  - (c) recording cost-sharing arrangements between two or more government entities for a contract with external third parties; and
  - (d) recognizing agency and administered activities.

## **Appropriations<sup>2</sup>**

- .36 Appropriations are the principal means by which entities that do not maintain operations from the sale of goods or services to parties outside the government in the normal course (i.e., are not self-sustaining) obtain funding for expenditures. Appropriations represent an authorization of funds or funding by a government to one of its entities for a specific purpose, of either an operating, financing or investing nature. Appropriations are the vehicles by which the legislature controls finances, and represent the linkage by which a legislature holds entities accountable for the management of financial affairs and the use of resources.
- .37 Under GAAP-based financial reporting, accounting for appropriations creates the issue of determining the elemental nature of the appropriation account, (i.e., whether it is a liability, contributed surplus or revenue).

### **Appropriation as a liability**

- .38 It may be argued that the identity of the payee changes from the supplier to the central revenue fund<sup>3</sup> when the supplier is paid, as if the appropriation is a liability. However, it is a remote possibility, at best, that an intention or requirement by the entity to pay the government at some future date exists. Accordingly, derecognition of the liability likely results from the forgiveness of

---

<sup>2</sup> For local governments, “appropriations” means any authorized distribution from the general revenue fund.

<sup>3</sup> For local governments, the term “central revenue fund” means “general revenue fund”.

the debt by the government. The accounting treatment afforded a debt that is forgiven is that the amount forgiven is recognized as revenue.

#### Appropriation as contributed surplus

- .39 Contributed surplus is one component of equity for private sector enterprises. The other two are share capital and retained earnings/(deficit). Contributed surplus arises when owners of the enterprise provide a permanent injection of capital without a corresponding receipt of goods or services or issue of shares. The cash or other assets provided represents an investment by the owner that is intended to result in future cash flow sufficient to maintain the owner's equity, without ongoing subsidies from the owner. Under GOVERNMENT ASSISTANCE — APPLICATION OF CICA HANDBOOK – ACCOUNTING SECTION 3800, Section PS 3800, only certain government organizations that are able to maintain their sustainability in the normal course of operations, are able to recognize amounts received from their governments as contributed surplus. Accordingly, other government organizations are precluded from recognizing amounts received as contributed surplus, since they cannot meet the criteria of maintaining self-sustaining operations under Section PS 3800.

#### Appropriation as revenue

- .40 In accordance with the conceptual framework, appropriation funding received or receivable satisfies the elemental attributes of revenue.
- .41 In addition, the considerations of the accounting treatment of debt forgiveness and of not meeting the criteria of maintaining self-sustaining operations by particular types of government organizations point toward the categorization of appropriations as revenue by an entity.

### **Principle 6**

Appropriations received or receivable from the entity's controlling government should be separately identified and reported at gross amounts in arriving at surplus or deficit for the period.

#### **Intra-government transactions**

- .42 Government entities provide goods and services externally, internally or both. Where goods or services are provided internally, the issue arises regarding the extent to which intra-government transactions are recognized in entity level financial statements by both the providing and recipient entities. Intra-government transactions are related party transactions to the individual reporting entities involved.
- .43 Some intra-government transactions are material in their entirety, and may or may not be recognized at the entity level due to different government policies. Alternatively, an entity's sole purpose may be the provision of one good or

- service to other entities, (i.e., the entity is set up to manage the items on behalf of other entities), for example, the entity that manages the central revenue fund, or an entity that manages the real estate and accommodation requirements of entities. Resolution of whether an entity is created to manage a common set of assets or costs that a number of entities use and benefit from, or whether each entity manages its own set of costs, is a matter of policy for each government, and depends on whether the focus of accountability for the entity is cost-centric (“pure play”) or entity-centric (“this is what it costs to provide this service”), as mutually exclusive alternatives. The cost-centric approach allows that costs are captured in one entity. Alternatively, the entity-centric perspective provides a complete picture of an entity’s operations.
- .44 Irrespective of a government’s viewpoint on entity purpose or structure, the size and broad mandate of government require the creation of entities to manage particular sets of programs, activities and associated costs. Intra-government transactions occur regularly between the providing entity and the recipient entity. They are economic transactions and should be reflected in the financial statements of the entity. The degree to which they are recognized at the entity level is a matter of professional judgment.
- .45 Factors that a government would take into account in establishing its accounting policies on the extent of intra-government cost allocations include, but are not limited to:
- (a) satisfying the qualitative characteristics of financial statements;
  - (b) materiality at the entity level;
  - (c) the existence of substitute third-party providers of, or customers for, the goods or services;
  - (d) providing information needed by elected officials from which to make informed choices about how to use limited resources to best serve the interests of constituents;
  - (e) providing accountability about an entity’s operations, financial and non-financial resources and how it has used the resources entrusted to it; and
  - (f) benefit versus cost constraint.
- .46 A government may also consider its accounting policies respecting the implementation of BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, and SEGMENT DISLCOSURES, Section PS 2700.
- .47 When a government determines its accounting policy for recognizing intra-government transactions, three alternatives exist (presented from the perspective of the providing entity and analyzed from the perspectives of both the providing and recipient entities):
- (a) no charge back for work done for recipient entities, and no recording by recipient;
  - (b) charge back for work done for recipient entities, and net against costs; and
  - (c) charge back for work done for recipient entities, and record as revenue.

No charge back for work done for recipient entities, and no recording by recipient

- .48 The providing entity would include all of the costs involved with providing the goods or services to recipient entities in its expenses with no offset in its revenues. This alternative shows the total cost of the services to the government in one entity, but does not show the cost of inputs to each recipient entity's operations.
- .49 At an entity level, this alternative adheres to neither the financial statement objectives nor the conceptual framework of the PSA Handbook. The objectives of reporting on an entity's financial condition and financial performance, of providing accountability about an entity's operations, financial and non-financial resources and how it utilized the resources entrusted to it, and of providing information needed by elected officials from which to make informed choices about how to use limited resources to best serve the interests of constituents, would not be achieved for either the providing or recipient entity. If third-party customers existed, the results of operations would not reflect the cost associated with the revenue for the providing entity. The information in the recipient entity's financial statements would not be relevant and would not clearly present the inputs consumed.

Charge back for work done for recipient entities, and net against costs

- .50 The generally accepted accounting principle of disclosing gross amounts of revenues and expenses would be violated in the providing entity's financial statements (see FINANCIAL STATEMENT PRESENTATION, paragraphs PS 1200.080 and PS 1200.082). This alternative understates the resources consumed by netting revenue received from recipients against total costs of the goods or services in the financial statements of the providing entity. The recipient entity would recognize an expense for the amount it was charged, with an equal and offsetting amount recognized as revenue. This alternative satisfies GAAP criteria for the recipient entity only.

Charge back for work done for recipient entities, and record as revenue

- .51 This alternative shows the extent of costs incurred and recoveries achieved for goods or services provided to others by the providing entity. The recipient entity would recognize an expense for the amount it was charged, with an equal and offsetting amount recognized as revenue. This alternative satisfies GAAP criteria for both the providing and recipient entities.

### **Principle 7**

Intra-government transactions should be recognized in the financial statements on a gross basis by both the providing and recipient entities.

- .52 Private sector enterprises consider two notions of value when measuring related party transactions: carrying value and exchange amount. RELATED PARTY TRANSACTIONS, CICA HANDBOOK – ACCOUNTING Section 3840, defines carrying value as the “amount of an item transferred, or cost of [goods or] services provided, as recorded in the accounts of the [providing entity or] transferor, after adjustment, if any, for amortization or impairment in value,” while exchange amount is defined as “the amount of consideration paid or received as established and agreed to by related parties.” For the most part, private sector enterprises are directed to measure related party transactions at their carrying value (i.e., cost value to the transferor). Exceptions include non-monetary related party transactions that are analogous to exchange transactions, in which case the exchange value should be used. This particular exception allows the provider of the related party transaction the possibility of recognizing profit. However, one of the unique characteristics of government is that its goals do not include making a profit. Accordingly, use of an exchange value has no basis in intra-government transactions, and the cost amount or carrying value to the provider of the goods or services should be used to measure the transaction.
- .53 The providing entity of the intra-government service is best able to measure the financial amount of the goods or services under GAAP. The providing entity of the intra-government goods or services should provide the financial amount of the goods or services provided to the recipient entity each time the goods or services is provided. If the provision of the goods or services is of a regular and continuing nature, then at the beginning or renewal of a period of providing it.

### **Principle 8**

The providing entity of the intra-government goods or services should determine the amount to be recognized by the recipient entity.

#### **Cost sharing**

- .54 Cost sharing is not a component of intra-government transactions. Cost sharing occurs when two or more entities obtain the same type of goods or services from a third party outside the government under the same contract. Cost sharing may be part of the original contract or result from a subcontract. Cost sharing is characterized by:
- (a) the absence of any value added to the cost-sharing arrangements by one of the participating government entities to the other(s); and
  - (b) in the case of a subcontract:

- (i) the subcontractor entity functions as a mere conduit between the third party and the other entity(ies) without any responsibility or accountability for the provision of the goods or services; and
- (ii) the provision of the goods or services is excluded from the mandate of the subcontractor entity.

.55 An example of cost sharing is the pro-rata cost allocation of a contract for external computer service provision between two or more government entities. Whether by direct contract or subcontract, the financial statements should recognize the proportionate cost to the entity of the goods or services consumed. In the case of a subcontract arrangement, recognizing revenue for the original contracting entity (i.e. the subcontractor) would not be appropriate since providing the service is not within the normal course of its operations and may be outside of its legislated mandate. Therefore, irrespective of the form of cost-sharing arrangements, each entity should recognize its proportionate share of the cost.

### **Principle 9**

Each entity should recognize its proportionate share of the cost in a cost-sharing arrangement with third parties outside the government.

#### **Agency versus administered activities**

- .56 Agency activities include those carried out by an entity directly to third parties or to other entities, and comprise most, if not all, of the entire set of activities associated with delivering the service mandate of the government. Agency activities are presented in entity level financial statements. Examples of agency activities include providing translation services to other entities within the government, and providing and maintaining park land for the public's use.
- .57 Alternatively, administered activities comprise those activities carried out by an entity on behalf of another entity within or outside the same government for which a fee may or may not be charged. Fees and related costs for administered activities should be reported in general purpose financial statements. The financial activity relating to the resources of other entities are excluded from the scope of this SOP. Examples of administered activities include the collection and enforcement activities for revenues under a program for which another entity within the government has been provided the overall responsibility, such as employment insurance, and the collection of education taxes by a municipality on behalf of a province.
- .58 Every entity that applies this standard will produce financial statements that include agency activities. Administered activities are excluded from entity level financial statements.
- .59 Under the Re-exposure Draft, "Tax Revenues," issued by PSAB in April 2009, taxes imposed and collected on behalf of other governments would not result in

the recognition of tax revenue by the intermediate government entity. Fees collected by the intermediate government entity for conducting those services would be recognized as revenue in its financial statements as part of its agency activities.

### **Principle 10**

An entity should report agency activities in its financial statements. Administered activities should be excluded from an entity's financial statements.

## **PRESENTATION**

- .60 For purposes of this SOP, when an entity prepares general purpose financial statements, then the PSA Handbook applies. To satisfy the objectives of financial statements, FINANCIAL STATEMENT PRESENTATION, Section PS 1200, states that financial statements comprise:
- (a) a statement of financial position;
  - (b) a statement of operations;
  - (c) a statement of changes in net debt;
  - (d) a statement of cash flow; and
  - (e) notes to the financial statements.
- .61 As stated in FINANCIAL STATEMENT PRESENTATION, Section PS 1200, the statement of financial position highlights four key figures that describe the financial position of the government at the financial statement date.
- (a) The cash resources of the government are its cash and cash equivalents.
  - (b) The net debt position of the government is calculated as the difference between its liabilities and financial assets.
  - (c) The non-financial assets of the government are assets that are, by nature, normally for use in service provision and include purchased, constructed, contributed, developed or leased tangible capital assets, inventories of supplies and prepaid expenses.
  - (d) The accumulated surplus or deficit of the government is calculated as the sum of the net debt of the government and its non-financial assets. This indicator represents the net assets of the government.
- .62 Each of the three remaining financial statements illustrates the change in one of these aspects of the government's financial position.
- .63 The statement of operations reports the surplus or deficit from operations in the accounting period. The statement displays the cost of government services provided in the period, the revenues recognized in the period and the difference between them. It measures, in monetary terms, the extent to which a government has maintained its net assets in the period.
- .64 The statement of change in net debt reports the extent to which the expenditures of the accounting period are offset by the revenues recognized in the period. This

- measure is displayed by reporting the items that explain the difference between the surplus or deficit from operations and the change in net debt for the period.
- .65 The statement of cash flow reports the change in cash and cash equivalents in the accounting period, and how a government financed its activities in the period and met its cash requirements.
  - .66 While the specific circumstances of the entity will dictate whether a net debt or net financial asset position is reported on the statement of financial position, the interpretation of the indicators will be the same for entities as for governments using the same presentation rigour. Similarly, the indicators arising from the statements of operations, changes in net debt and cash flow will have the same significance at the entity level as for the government as a whole. For instance, in the case of a capital lease at the entity level, the obligation for future lease payments may give rise to a net debt position or a reduced net financial asset amount, since the revenue from the appropriation to settle the lease obligation will be made in future periods as the lease payments come due.
  - .67 The specific circumstances of the entity will determine whether a statement of cash flow is prepared as part of the financial statements. For instance, if the entity does not have control over a bank account that is separate from the central revenue fund, then preparing a cash flow statement would be inappropriate. The reasons for excluding a statement of cash flow would be disclosed in the notes to the financial statements.
  - .68 Presentation of entity level financial statements should be the same as those for the government as a whole, and should include a statement of financial position, of operations, of changes in net debt, and cash flow, where appropriate.

### **Comparative figures**

- .69 Inter-period and budget-to-actual comparability for the same entity, and intra-government comparability for similar types of entities in other governments, are desirable by both financial statement users and preparers.
- .70 In practice, the composition of entities can change from period to period, with new responsibilities added or removed. Entity level financial statements should reflect changes in the government's identification of accountabilities for the reporting entity, for current, budget and prior periods, to the extent possible.
- .71 Although there may be costs involved with restating prior year and budget figures, comparative data should be restated to conform to the current year's definition of operations within the entity to the extent possible. There are no exceptions to reporting prior year figures. Two exceptions to consider regarding budget data could occur when:
  - (a) the scope of operations between budget and actual results has changed; or
  - (b) the basis differs between the budget and actual results.

- .72 FINANCIAL STATEMENT PRESENTATION, paragraph PS 1200.124, explains that when the scope of the financial activity reported in the fiscal budget is not the same as that reported in the financial statements, it may be necessary to restrict the comparison of actual and budgeted results to the scope of the financial activity reported in the budget or main estimates of expenditures. This comparison would be presented in a note or supporting schedules. To ensure that this disclosure is reconcilable to the information reported in the financial statements, an entity would highlight the difference between the reporting entity used for the financial statements and that used for the fiscal budget.
- .73 FINANCIAL STATEMENT PRESENTATION, paragraph PS 1200.125, explains that when a fiscal budget has not been prepared on a basis consistent with that used to report the actual results, budgeted results should be reported on the same basis as that used to report the results of the current period. In these circumstances, it would be necessary to provide a reconciliation of the restated information with that originally presented in the fiscal budget.

### **Principle 11**

Comparative and budget figures should be provided in entity level financial statements on a basis consistent with the scope and mandate of the entity.

When the scope of financial activity reported in the fiscal budget differs from that reported in the financial statements, the provisions in FINANCIAL STATEMENT PRESENTATION, paragraph PS 1200.124 prevail.

When the basis of the fiscal budget is not consistent with the basis for reporting actual results, then the provisions in FINANCIAL STATEMENT PRESENTATION, paragraph PS 1200.125 prevail.

## **DISCLOSURE**

### **Authority and purpose of the entity**

- .74 To help users better understand the role the entity plays in a government's discharging its responsibility to constituents and provide context for the financial statements, an entity should include a description of the nature of its operations that includes the authority and purpose under which it operates, in addition to complying with the standards in DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100. An example follows:

The [name of entity] ("Entity") was established effective [date] under the [name of legislation] Act. The Entity is a [type of organization] named in Schedule X of the [government reporting act] and reports to Parliament through the Minister of Y.

The mandate of the Entity is to provide services to ... These services are grouped into the following key areas: [brief description of functional line items].

## Appropriations

- .75 The authorization for appropriations is part of the budget process performed by the legislature. Appropriations are funded during the fiscal year. Revised estimates of the original budget amounts may be approved by the legislature during the year. Unutilized authorized appropriations may or may not expire at the end of the fiscal year. After the end of the fiscal year, actual amounts funded by appropriations recognized in the financial statements are reconciled to authorized amounts from the original and estimated amounts from the budget process as part of the accountability process to the legislature, and disclosed in the notes to the financial statements.

### Principle 12

Additional disclosure in entity level financial statements should include:

- (a) the authority and purpose of an entity; and
- (b) a reconciliation of appropriations recognized in the financial statements to authorized amounts.

## Related party transactions

- .76 Related party transactions include intra-government transactions of a regular and repeated nature, and transactions of an irregular nature.
- .77 Parties in a government are related when one party has the ability to control the financial actions and decisions of another party, or exercise significant influence over another party, or are controlled by the same party.
- .78 For purposes of this SOP, related parties include:
- (a) entities that are controlled, directly or indirectly, by the reporting entity; and
  - (b) entities that are controlled, directly or indirectly, by the same government.
- .79 In order that a user fully understands the nature of related party transactions, the note disclosure for related party transactions should include, but is not limited to:
- (a) a description of the relationship between the transacting parties;
  - (b) a description of the goods or services provided or received;
  - (c) the aggregate financial amount of the goods or services provided or received in the reporting period; and
  - (d) amounts due to or from the related party and the associated terms and conditions.

If the related party transactions occur in the normal course of operations, the information can be provided in the aggregate.

**Principle 13**

Disclosure of related party transactions should include, but is not limited to:

- (a) a description of the relationship between the transacting parties;
- (b) a description of the goods or services provided or received;
- (c) the aggregate financial amount of the goods or services provided or received; and
- (d) amounts due to or from the related party and the associated terms and conditions.

If the related party transactions occur in the normal course of operations, the information can be provided in the aggregate.

**Decision Tree**  
**Entity Level Financial Statements**

