

# Financial Reporting by Government Not-for-Profit Organizations

## March 2010

**COMMENTS MUST BE RECEIVED BY  
JULY 15, 2010**

This Exposure Draft 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.

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

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 July 15, 2010, addressed to:**

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A PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by e-mail (in Word format), to: [ed.psector@cica.ca](mailto:ed.psector@cica.ca)

Public Sector Accounting Standards, Guidelines and Recommended Practices need not be applied to immaterial items. Materiality is a matter of professional judgment in the particular circumstances. Materiality may be judged in relation to the reasonable prospect of its significance in the making of assessments and judgments by the users of financial statements. A material item would be expected to affect assessments of and judgments on government financial operations and management.

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## Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received on this Exposure Draft (ED), to incorporate into the CICA Public Sector Accounting (PSA) Handbook, Sections 4400 to 4470 from the CICA Handbook – Accounting (also referred to as the “4400 series”) and to direct government not-for-profit organizations to adhere to the standards for not-for-profit organizations in the PSA Handbook. Responses are requested by July 15, 2010.

The Accounting Standards Board (AcSB) has concurrently issued an Exposure Draft that sets out the financial reporting proposals for those not-for-profit organizations that are not controlled by a government. To view a copy of the AcSB Exposure Draft, [click here](#).

### Main features of Exposure Draft

PSAB issues standards and guidance that serves the public interest by improving information for decision making and by strengthening accountability in the public sector. Included in the scope of PSAB’s mandate are public sector entities that are governments and those organizations controlled by governments.

In this ED, PSAB sets out financial reporting proposals that would apply to government not-for-profit organizations. Specifically, PSAB proposes to:

- Incorporate into the PSA Handbook, the 4400 series from the CICA Handbook – Accounting. PSAB has decided not to make substantive changes to these Sections at this time.
- Amend the Introduction to Accounting Standards that Apply Only to Not-for-Profit Organizations to set out the applicability of standards in the PSA Handbook to government not-for-profit organizations.
- Amend the Introduction to Public Sector Accounting Standards to direct government not-for-profit organizations to apply the standards for not-for-profit organizations in the PSA Handbook for fiscal periods beginning on or after January 1, 2012.

### Background

*What is a government not-for-profit organization?*

A government not-for-profit organization is defined in the PSA Handbook as an organization that has all of the following characteristics:

- (a) It has counterparts outside the public sector.
- (b) It is an entity normally without transferable ownership interests.
- (c) It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
- (d) Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

*Why are proposals being made to change the reporting requirements for government not-for-profit organizations?*

The source of generally accepted accounting principles (GAAP) currently being followed by not-for-profit organizations, the CICA Handbook – Accounting (now Part V of the Handbook), is being replaced. Starting in 2011, profit-oriented enterprises that are publicly accountable enterprises will apply International Financial Reporting Standards (IFRSs). All other profit-oriented enterprises will apply the newly developed GAAP for private enterprises that were developed to

address the needs of those entities that are not publicly accountable. Adoption of this new strategic plan by the AcSB necessitated consideration of the future of financial reporting standards for not-for-profit organizations.

The AcSB and PSAB jointly published an Invitation to Comment in December 2008 to obtain views as to the best approach. Interested parties provided substantial input in the form of written responses and participation in a series of roundtable sessions. PSAB formed an advisory group to assist in reviewing the responses of their constituents and in formulating a direction for government not-for-profit organizations. This ED reflects the proposals of PSAB for government not-for-profit organizations.

*Why is PSAB proposing that public sector reporting standards are most appropriate for government not-for-profit organizations?*

While PSAB has concluded that the financial reporting needs of government business enterprises (GBEs) align well with standards for publicly accountable profit-oriented enterprises (i.e., IFRSs), it believes government organizations other than GBE's are better served by using public sector reporting standards (i.e., the PSA Handbook).

The focus of operations for these government organizations (i.e., non-GBEs) is on the provision of public services. They are accountable to a broad group of users including legislators, investors and the general public and, in many provinces, these government organizations disburse a majority of the service delivery expenditures. Accordingly, there is a need to ensure the financial reporting is completed in a manner consistent with the accountability that public sector reporting standards have been developed to provide.

Additionally, the 4400 series in the CICA Handbook – Accounting was developed to meet the specific needs of not-for-profit organizations. Responses to the December 2008 Invitation to Comment endorsed the 4400 series as serving user needs by addressing the accounting for transactions commonly encountered by not-for-profit organizations. Many users and the directors of these not-for-profit organizations are accustomed to this presentation model.

Bringing the 4400 series into the PSA Handbook will result in government not-for-profit organizations continuing to apply the 4400 series of standards that they are familiar with while using the PSA Handbook as a financial reporting foundation.

*How will government not-for-profit organizations transition to the PSA Handbook?*

Government not-for-profit organizations would transition to the standards for not-for-profit organizations in the PSA Handbook for fiscal periods beginning on or after January 1, 2012.

An Exposure Draft entitled “First-time Adoption of Public Sector Accounting Standards by Government Organizations,” issued by PSAB in January 2010 is currently out for comment. Adoption of the PSA Handbook by government not-for-profit organizations is to be accounted for by retroactive application with restatement of prior periods. The January 2010 Exposure Draft proposes specific aspects of the PSA Handbook that need not be adopted on a retroactive basis. Once finalized, these requirements will apply to all government organization adopting the PSA Handbook, including government not-for-profit organizations. To view this Exposure Draft, [click here](#).

*What are the longer-term objectives for financial reporting by government not-for-profit organizations?*

PSAB was advised during the consultation process related to the December 2008 Invitation to Comment that the existing financial reporting standards for not-for-profit organizations that form the basis for the proposals in this ED, can and should continue to be improved in order to remain relevant.

PSAB has agreed to undertake a review to identify necessary improvements to not-for-profit financial reporting following incorporation of these standards into the PSA Handbook. Subject to the outcome of the review, PSAB expects to propose amendments to the standards in the future. The AcSB will undertake a similar evaluation for not-for-profit organizations in the private sector. PSAB will collaborate with the AcSB in the review of not-for-profit reporting in relation to their respective conceptual frameworks, which share many common attributes. The aim is to ensure that similar treatment is accorded to similar transactions by all not-for-profit organizations issuing financial reports. Until a full due process review that provides the opportunity for comment and consultation has been completed, the existing standards specific to not-for-profit organizations will continue to be used.

### **Summary of key technical features**

Requirements in the 4400 series are to be substantially unchanged to those presently contained in the CICA Accounting – Handbook with the following exceptions:

- The modified equity method will be provided, rather than the equity method, when the equity method is an alternative method within REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK – ACCOUNTING Section 4450. When applying the modified equity method, the investee’s accounting principles are not adjusted to conform with those of the investor. Application of the modified equity method will avoid the need to restate the reports of the investee when its basis of GAAP is other than the PSA Handbook. For example, an investee may prepare their financial statements based on accounting principles applicable to publicly accountable profit-oriented enterprises (i.e., IFRSs).
- In the PSA Handbook, there is no concept equivalent to “other comprehensive income”. Accordingly, the requirement to separately identify and report revenues, expenses, gains and losses recognized directly in the statement of changes in net assets has been removed from FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK – ACCOUNTING Section 4400.
- The Sections are to be renumbered PS 4200 to PS 4270 when incorporated into the PSA Handbook.
- The PSA Handbook does not include standards on interim financial statements and asset retirement obligations. Therefore, these references have been removed from FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK – ACCOUNTING Section 4400 and CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK – ACCOUNTING Section 4430.

These proposals are reflected in this ED.

PSAB expects the final standards would be incorporated into the PSA Handbook in late 2010.

## Comments requested

PSAB welcomes comments from individuals, governments and organizations on all aspects of the ED.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify the source of the comment in the response. This will promote understanding of how the proposals are affecting various aspects of an organization.

Comments are most helpful if they relate to a specific 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.

Supporting reasons for your comments are most valuable when they demonstrate how the ED proposals, or your alternatives:

- produce more relevant information for accountability and decision-making by external users;
- improve the representation of the substance of the underlying transaction or event;
- contribute to improved measures and understanding of financial position and annual results;
- facilitate enhanced comparability; and
- provide sufficient information for external users to understand the financial statements.

PSAB notes that given the proposed timeline for finalizing the new strategic direction for government not-for-profit organizations, there is limited ability to address new issues or deliberate on the current technical aspects in the 4400 series.

As indicated earlier, PSAB intends to undertake a review of the standards that apply to government not-for-profit organizations. This review will be performed in collaboration with the AcSB on those matters of common interest to both the Boards. Those responding to this ED are invited to comment on specific issues that should be included within the scope of such a future review. Respondents are asked to comment specifically on whether it is critical that they be addressed in adopting the proposals in the ED or can be addressed subsequently.

Please respond to the following questions:

1. Do you agree with the proposal to incorporate into the PSA Handbook, Sections 4400 to 4470 from the CICA Handbook – Accounting in order to address the financial reporting needs of government not-for-profit organizations? If not, what alternative approach would you advocate and why?
2. Do you agree with the transitional provisions for government not-for-profit organizations adopting the PSA Handbook? If not, why not.
3. Are there any additional matters that you feel may be relevant to this topic that need to be considered?

# Financial Reporting by Government Not-for-Profit Organizations

## PROPOSAL

The Introduction to Accounting Standards that Apply Only to Not-For-Profit Organizations and Sections 4400 to 4470 of the CICA Handbook – Accounting are to be incorporated into the CICA Public Sector Accounting (PSA) Handbook, renumbered as Sections PS 4200 to PS 4270. References to other standards within these Sections and transitional provisions will be updated.

Additional amendments to be made to the Introduction and Sections 4400 to 4470 are as follows. Additions are underlined and deletions are struck through. Certain paragraphs that do not contain changes have been included for context. Other paragraphs that have not changed have been excluded from this Exposure Draft.

### **Introduction to Accounting Standards that Apply Only to Not-for-Profit Organizations, CICA Handbook – Accounting**

The Introduction would be amended as indicated below. The table and associated footnotes provided in the CICA Handbook – Accounting would be replaced with the table and footnotes provided below.

### **Introduction to Accounting Standards that Apply Only to Government Not-For-Profit Organizations**

~~.01~~ The CICA Handbook—Accounting applies to both profit-oriented enterprises and not-for-profit organizations, unless otherwise indicated. ~~Not-for-profit organizations are defined in FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400.~~ The CICA Public Sector Accounting (CICA PSA) Handbook applies to all governments and those organizations that consider it to be the appropriate source of generally accepted accounting principles (GAAP) with respect to their objectives and circumstances. Not-for-profit organizations are defined in FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4200.

~~.02~~ The Sections that follow this Introduction apply only to government not-for-profit organizations.<sup>1</sup> These Sections deal with matters that are unique to not-for-profit organizations, or with issues where the needs of financial statement users indicate that different requirements from those that apply to governments, other government organizations or profit-oriented enterprises are appropriate. These Sections are based on the concepts set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.

~~.03~~ GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150+100, is applicable to government not-for-profit organizations and establishes standards for financial reporting in accordance with generally accepted accounting principles (GAAP). It describes what constitutes Canadian GAAP for the public sector and its sources for organizations that consider the CICA PSA

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<sup>1</sup> A government not-for-profit organization is a government organization that meets the definition of a not-for-profit organization and has counterparts outside the public sector as defined in the Introduction to Public Sector Accounting Standards, paragraph .03.

Handbook to be the most appropriate to their objectives and circumstances. The Section also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures, when a matter is not dealt with explicitly in the primary sources of GAAP. The primary sources of GAAP include, among others, and in addition to Accounting Handbook Sections discussed below, Accounting Guidelines, including Appendices, and Board Notices, and Abstracts of Issues Discussed by the Emerging Issues Committee (EIC Abstracts), including Appendices. A government not-for-profit organization should apply the provisions of Section PS 1150-1100 when reporting in accordance with Canadian GAAP for the public sector, and would thus apply the requirements of Accounting Public Sector Guidelines and EIC Abstracts and other primary sources of GAAP, to the extent they are applicable in the organization's circumstances.

.04 The following table sets out the applicability of Accounting CICA PSA Handbook Sections to government not-for-profit organizations (GNFPOs). Sections are considered to be of general applicability if they address matters that should be considered by all GNFPOs, not-for-profit organizations. Other Sections are applicable to the extent that a particular organization has the transactions or circumstances dealt with in the Section. The remaining Sections are of very limited or no applicability to GNFPOs.

| Section   | General applicability | Applies to GNFPOs with relevant transactions or circumstances | Limited or no applicability to GNFPOs |
|---|-----------------------|---|---------------------------------------|
| PS 1000, FINANCIAL STATEMENT CONCEPTS             | x <sup>2</sup>        |   |                                       |
| PS 1100, FINANCIAL STATEMENT OBJECTIVES           | x                     |   |                                       |
| PS 1150, GENERALLY ACCEPTED ACCOUNTING PRINCIPLES | x                     |   |                                       |
| PS 1200, FINANCIAL STATEMENT PRESENTATION         | x <sup>3</sup>        |   |                                       |
| PS 1300, GOVERNMENT REPORTING ENTITY              |                       |   | x <sup>4</sup>                        |
| PS 2100, DISCLOSURE OF ACCOUNTING POLICIES        | x                     |   |                                       |
| PS 2120, ACCOUNTING CHANGES                       | x                     |   |                                       |
| PS 2130, MEASUREMENT UNCERTAINTY                  | x                     |   |                                       |
| PS 2400, SUBSEQUENT EVENTS                        | x                     |   |                                       |
| PS 2500, BASIC PRINCIPLES OF CONSOLIDATION        |                       | x   |                                       |

<sup>2</sup> In the event that the provisions of Section PS 1000 conflict with Sections PS 4210 and PS 4230 on the deferral of contributions and costs, Sections PS 4210 and PS 4230, respectively, apply.

<sup>3</sup> Section PS 1200 applies for preparing the statement of cash flows. Section PS 4200 applies for the remaining financial statements.

<sup>4</sup> Section PS 4250 applies.

| Section  | General applicability | Applies to GNFPOs with relevant transactions or circumstances | Limited or no Applicability to GNFPOs |
|--|-----------------------|---|---------------------------------------|
| PS 2510, ADDITIONAL AREAS OF CONSOLIDATION                                       |                       | x   |                                       |
| PS 2600, FOREIGN CURRENCY TRANSLATION  |                       | x   |                                       |
| PS 2700, SEGMENT DISCLOSURES   | x                     |   |                                       |
| PS 3030, TEMPORARY INVESTMENTS   |                       | x   |                                       |
| PS 3040, PORTFOLIO INVESTMENTS   |                       | x   |                                       |
| PS 3050, LOANS RECEIVABLE  |                       | x   |                                       |
| PS 3060, GOVERNMENT PARTNERSHIPS   |                       | x   |                                       |
| PS 3070, INTERESTS IN GOVERNMENT BUSINESS ENTERPRISES                            |                       |   | x <sup>5</sup>                        |
| PS 3100, RESTRICTED ASSETS AND REVENUES  |                       |   | x <sup>6</sup>                        |
| PS 3150, TANGIBLE CAPITAL ASSETS   |                       |   | x <sup>7</sup>                        |
| PS 3200, LIABILITIES   |                       | x   |                                       |
| PS 3230, LONG-TERM DEBT  |                       | x   |                                       |
| PS 3250, RETIREMENT BENEFITS   |                       | x   |                                       |
| PS 3255, POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS |                       | x   |                                       |
| PS 3270, SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY                 |                       | x   |                                       |
| PS 3300, CONTINGENT LIABILITIES  | x                     |   |                                       |
| PS 3310, LOAN GUARANTEES   |                       | x   |                                       |
| PS 3390, CONTRACTUAL OBLIGATIONS   | x                     |   |                                       |
| PS 3410, GOVERNMENT TRANSFERS  |                       |   | x <sup>6</sup>                        |

<sup>5</sup> Section PS 4250 applies.

<sup>6</sup> Section PS 4210 applies.

<sup>7</sup> Section PS 4230 applies.

**FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS,  
CICA HANDBOOK – ACCOUNTING Section 4400**

This Section would be amended as indicated below, and renumbered as Section PS 4200.

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**STATEMENT OF FINANCIAL POSITION**

- .18 ► *For each financial statement item, the statement of financial position should present a total that includes all funds reported.*
- .19 ► *The statement of financial position should present the following:*  
*(a) ~~(deleted)~~*  
*(ab) net assets subject to restrictions requiring that they be maintained permanently as endowments;*  
*(bc) other restricted net assets;*  
*(cd) unrestricted net assets; and*  
*(de) total net assets.*  
*Each component of revenue, expense, gain and loss that is required by primary sources of GAAP (see GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100) to be recognized directly in the statement of changes in net assets should be separately identified, classified by nature.*

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**STATEMENT OF CHANGES IN NET ASSETS**

- .41 ► *The statement of changes in net assets should present changes in the following for the period:*  
*(a) ~~(deleted)~~*  
*(ab) net assets subject to restrictions requiring that they be maintained permanently as endowments;*  
*(bc) internally restricted net assets and, separately, externally restricted net assets other than those in (ab);*  
*(cd) unrestricted net assets; and*  
*(de) total net assets.*  
*Each component of revenue, expense, gain and loss that is required by primary sources of GAAP (see GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100) to be recognized directly in the statement of changes in net assets should be separately identified, categorized in the same components as determined in accordance with paragraph 4400.19.*
- .42 ► *The total of the following, for the period, should be disclosed:*  
*(a) the excess or deficiency of revenues and gains over expenses and losses;*  
*and*  
*(b) all changes in components of revenues, expenses, gains and losses required by primary sources of GAAP to be recognized directly in the statement of changes in net assets.*
- .43 The statement of changes in net assets may be referred to as the statement of changes in fund balances when the organization uses fund accounting in its financial statements. Total net assets represents the organization's residual interest in its assets after deducting its liabilities. The net assets balance therefore provides information about the net resources the organization has

available for carrying out its service delivery activities in the future. To fully understand the nature of the organization's financial activities in the period, financial statement users require information about changes in the portions of net assets attributable to endowments and to other external and internal restrictions as well as those revenues, expenses, gains and losses that have not been included in the statement of operations. The statement of changes in net assets provides this information and shows the extent to which the organization's operations and other revenues, expenses, gains and losses that have not been included in the statement of operations have resulted in an accumulation or depletion of net assets.

- .44 The statement of changes in net assets may be combined with the statement of operations. The requirement in paragraph 4400.42 may be met in a number of ways. For example, revenues, expenses, gains and losses presented in accordance with paragraph 4400.42(b) may be presented immediately below the total for the excess or deficiency of revenues and gains over expenses and losses in the statement of operations. Alternatively, all items required by paragraph 4400.42 may be presented in a separate statement that begins with the excess or deficiency of revenues and gains over expenses and losses.
- ~~.45 Revenues, expenses, gains and losses recognized in a period are presented in the statement of operations unless a primary source of GAAP requires otherwise. Some primary sources of GAAP require certain gains and losses, such as certain exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation, to be included directly in the statement of changes in net assets. It is important to understand the nature and amounts of those different types of gains and losses that are included directly in the statement of changes in net assets. Therefore, this Section requires an organization to present information about changes during the period in each category of gains and losses that is of a different nature. This would, for example, result in gains and losses arising from changes in fair values of available-for-sale financial assets (see FINANCIAL INSTRUMENTS—RECOGNITION AND MEASUREMENT, Section 3855) being classified separately from gains and losses arising from changes in fair values of effective cash flow hedging instruments (see HEDGES, Section 3865).~~

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## **INTERIM FINANCIAL STATEMENTS**

- ~~.55A Not-for-profit organizations that are required by law, regulation or contract to prepare interim financial statements in accordance with generally accepted accounting principles, or elect to do so, apply INTERIM FINANCIAL STATEMENTS, Section 1751.~~

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**CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS,  
CICA HANDBOOK – ACCOUNTING Section 4430**

This Section would be amended as indicated below, and renumbered as Section PS 4230.

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**DEFINITIONS**

.05 The definitions that follow have been adopted for purposes of this Section.

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- (d) **Cost** is the amount of consideration given up to acquire, construct, develop, or better a capital asset and includes all costs directly attributable to the acquisition, construction, development or betterment of the capital asset including installing it at the location and in the condition necessary for its intended use. For a contributed capital asset, cost is considered to be fair value at the date of contribution. Cost includes any asset retirement cost, ~~accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110.~~

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**Asset retirement obligations**

~~.25—Obligations associated with the retirement of capital assets are accounted for in accordance with ASSET RETIREMENT OBLIGATIONS, Section 3110.~~

**REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK – ACCOUNTING Section 4450**

This Section would be amended as indicated below, and renumbered as Section PS 4250.

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**PRESENTATION AND DISCLOSURE OF CONTROLLED PROFIT-ORIENTED ENTERPRISES**

- .30 ► *An organization should report each controlled profit-oriented enterprise in either of the following ways:*
- (a) *by consolidating the controlled enterprise in its financial statements; or*
  - (b) *by accounting for its investment in the controlled enterprise using the modified equity method and providing the disclosure set out in paragraph PS 4250.32. ~~4450.32.~~*
- .31 ► *For a controlled profit-oriented enterprise, regardless of whether it is consolidated or accounted for using the modified equity method, the following should be disclosed:*
- (a) *the policy followed in reporting the controlled enterprise; and*
  - (b) *a description of the relationship with the controlled enterprise.*
- .32 ► *For each controlled profit-oriented enterprise or group of similar controlled enterprises accounted for using the modified equity method, the following should be disclosed:*
- (a) *total assets, liabilities and shareholders' equity at the reporting date; and*

(b) revenues (including gains), expenses (including losses), net income and cash flows from operating, financing and investing activities reported in the period.

- .33 An organization may present consolidated financial statements to include controlled entities. Consolidated financial statements would be prepared in accordance with BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, and ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510. ~~CONSOLIDATED FINANCIAL STATEMENTS, Section 1601.~~ Investments in controlled profit-oriented enterprises that are not consolidated would be accounted for using the modified equity method in accordance with INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070~~INVESTMENTS, Section 3051.~~ When the modified equity method is used, additional financial information about the controlled entity would be disclosed to provide users with information about the controlled entity's financial position and results of operations. Similar controlled enterprises may be grouped together for purposes of disclosure. An organization may choose to consolidate some controlled enterprises and to account for others using the modified equity method. Similar types of controlled enterprises would be reported in the same manner. The organization's policy in accounting for each controlled enterprise or group of enterprises would be disclosed.
- .34 Disclosure of the relationship with a controlled enterprise would be provided whether the enterprise is consolidated or accounted for using the modified equity method. This disclosure would include information about how the controlled entity's operations relate to or complement those of the reporting organization. In addition, the reporting organization would provide any disclosure required by DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4260~~4460~~.
- .35 ~~INVESTMENTS, Section 3051, presents additional disclosures to be provided when investments are accounted for using the equity method.~~ BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, and ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510~~CONSOLIDATED FINANCIAL STATEMENTS, Section 1601,~~ presents disclosure requirements for when consolidated financial statements are presented. When a ~~The~~ controlled enterprise's is consolidated, its accounting policies would be adjusted to conform with those of the reporting organization.

## PRESENTATION AND DISCLOSURE OF JOINT VENTURES

- .36 ➤ *An organization should report each interest in a joint venture in either of the following ways:*
- (a) *by accounting for its interest using the proportionate consolidation method in accordance with GOVERNMENT PARTNERSHIPS, Section PS 3060 INTERESTS IN JOINT VENTURES, Section 3055; or*
  - (b) *by accounting for its interest using the modified equity method and disclosing the information set out in paragraph PS 4250.38~~4450.38~~.*
- .37 ➤ *For an interest in a joint venture, regardless of whether it is reported using the proportionate consolidation or the modified equity method, the following should be disclosed:*
- (a) *the policy followed in reporting the interest; and*
  - (b) *a description of the relationship with the joint venture.*

- .38 ➤ For each interest in a joint venture, or group of similar interests, accounted for using the modified equity method, the following should be disclosed:
- (a) the reporting organization's share of the joint venture's total assets, liabilities and net assets, or shareholders' equity, at the reporting date;
  - (b) the reporting organization's share of the joint venture's revenues (including gains), expenses (including losses), and cash flows from operating, financing and investing activities reported in the period; and
  - (c) significant differences in accounting policies from those followed by the reporting organization.

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#### **PRESENTATION OF SIGNIFICANTLY INFLUENCED PROFIT-ORIENTED ENTERPRISES**

- .43 ➤ When the reporting organization has significant influence over a profit-oriented enterprise, the investment should be accounted for using the modified equity method in accordance with GOVERNMENT PARTNERSHIPS, Section PS 3060~~INVESTMENTS, Section 3051~~.
- .44 GOVERNMENT PARTNERSHIPS, paragraphs PS 3060.55-.60~~INVESTMENTS, Section 3051~~, sets out the presentation and disclosure requirements for the reporting organization's share of significantly influenced investees. In addition, DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4260-4460, sets out disclosure requirements for transactions with related parties.

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#### **FINANCIAL INFORMATION AT DIFFERENT DATES**

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- .49 The presentation of consolidated financial statements when the reporting organization and the controlled entity's reporting periods do not substantially coincide is dealt with in BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500~~CONSOLIDATED FINANCIAL STATEMENTS, Section 1601~~. The guidance in Section PS 2500~~1601~~ is appropriate for consolidations of both controlled profit-oriented enterprises and controlled not-for-profit organizations with reporting periods that differ from that of the reporting organization. INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070,~~INVESTMENTS, Section 3051~~, deals with accounting for an investee using the modified equity method when the reporting organization and the investee have different reporting periods.

## CONSEQUENTIAL AMENDMENTS

The following consequential amendments have been identified. Additions are underlined and deletions are struck through. Certain paragraphs that do not contain changes have been included for context. Other paragraphs that have not changed have been excluded from this Exposure Draft.

### Introduction to Public Sector Accounting Standards

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- .06 For purposes of their financial reporting, ~~(a)~~ government business enterprises<sup>3</sup> should adhere to the standards applicable to publicly accountable enterprises in the CICA Handbook – Accounting; ~~and~~.
- ~~(b).~~07 For purposes of their financial reporting, government not-for-profit organizations should adhere to the standards for not-for-profit organizations in the CICA Public Sector Accounting (PSA) Handbook~~– Accounting~~.<sup>4</sup>
- ~~.07~~08 The standards in the CICA Public Sector Accounting (PSA) Handbook generally meet the needs of users of general purpose financial statements of other government organizations. When these standards do not meet these users' needs, the standards applicable to publicly accountable enterprises in the CICA Handbook – Accounting should be considered. The basis of accounting determined to be most appropriate should be disclosed and consistently applied.<sup>5 4</sup>

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<sup>3</sup> Government business enterprises should follow the same transitional provisions as determined by the Accounting Standards Board for publicly accountable enterprises. Government business enterprises should disclose this change in their basis of accounting in the periods preceding the period the change becomes effective.

<sup>4</sup> Standards for not-for-profit organizations in the CICA PSA Handbook include Sections PS 4200 to PS 4270. Only government not-for-profit organizations are permitted to follow these Sections. Government not-for-profit organizations should adopt the standards for not-for-profit organizations in the CICA PSA Handbook for fiscal periods beginning on or after January 1, 2012. Government not-for-profit organizations that change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards for not-for-profit organizations in the CICA PSA Handbook should be accounted for by retroactive application with restatement of prior periods.

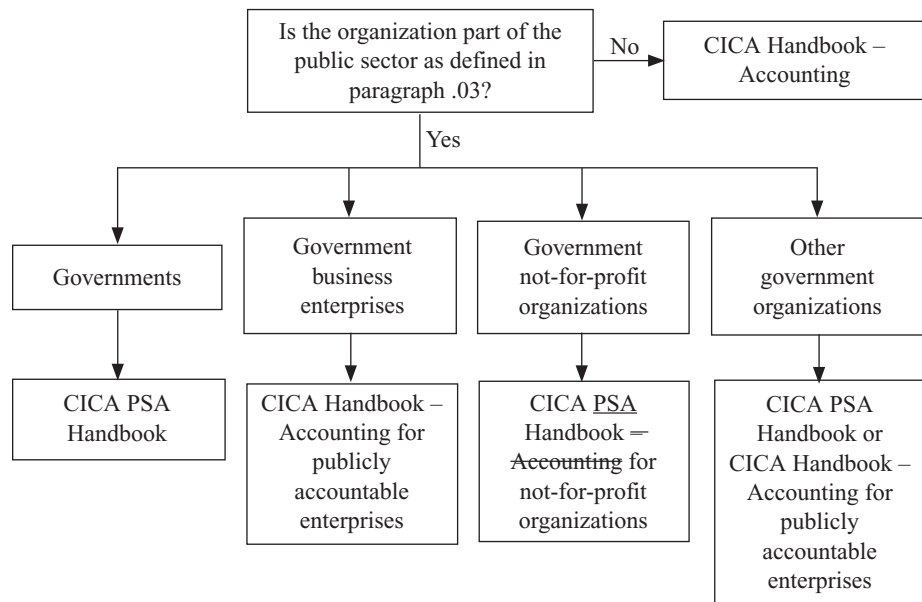
<sup>54</sup> Other government organizations that determine standards applicable to publicly accountable enterprises are most appropriate for their organization should follow the transitional provisions determined by the Accounting Standards Board. Other government organizations that adopt the standards issued by the Public Sector Accounting Board should do so for fiscal periods beginning on or after January 1, 2011. Other government organizations that expect to change their basis of accounting should disclose this fact in the periods preceding the period the change becomes effective. The adoption of the standards issued by the Public Sector Accounting Board should be accounted for by retroactive application with restatement of prior periods.

- ~~1011~~ A government not-for-profit organization is an ~~government~~-organization that has all of the following characteristics:
- ~~(a) meets the definition of a not-for-profit organization in the CICA Handbook—Accounting<sup>5</sup> and that It has counterparts outside the public sector as defined in paragraph .03.~~
  - ~~(b) It is an entity normally without transferable ownership interests.~~
  - ~~(c) It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.~~
  - ~~(d) Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.~~
- ~~(Refer to FINANCIAL STATEMENT PRESENTATION BY NOT-FOR PROFIT ORGANIZATIONS, paragraph PS 4200.02.)~~

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<sup>5</sup>—FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK—ACCOUNTING paragraph 4400.02, defines not-for-profit organizations as entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

## APPENDIX A



PSAB reserves the right to recommend additional or different information to meet the special circumstances of government organizations.