

PSAB GAAP FOR FIRST NATIONS
ILLUSTRATION – GOVERNMENT TRANSFERS
FALL 2009

The following example is to be used in conjunction with the Power Point Presentation slides 29-34 on Government Transfers.

Currently, First Nations recognize government transfers in the Statement of Revenue and Expenditures whenever the related expenditures have been incurred. First Nations also record the cost of acquiring or constructing Tangible Capital Assets as an expense in the Statement of Revenue and Expenditures in the year of acquisition or construction.

This treatment results in **matching the revenue (government transfer) with the expenditures (cost)**. Any surplus or deficit resulting from this matching would increase or decrease the Operating surplus/deficit accordingly.

The new accounting rules for Tangible Capital Assets require that the cost of acquiring or constructing Tangible Capital Assets be added to the Statement of Financial Position, no longer going through the Statement of Revenue and Expenditures. This will result in a large surplus in the Statement of Revenue and Expenditures because **the revenue (government transfer) will be recorded there but the expenditures (cost) will not.**

To illustrate, assume that First Nation A, in 2006-07, obtained \$300,000 of INAC funding to construct a new First Nation administration office, while First Nation B, also received \$300,000 but received it in 2009-10.

Assume as well that both First Nations started and completed the construction in the one year, for First Nation A in 2006-07 and for First Nation B in 2009-10 and the construction costs in each case were the same, at \$332,000.

The following comparative Statements of Revenue and Expenditures for each First Nation, in the year of construction, demonstrate the difference between the two accounting treatments:

Comparative Statements of Revenue and Expenditures

	<u>First Nation A</u>	<u>First Nation B</u>
Revenue:		
INAC	\$ 300,000	\$ 300,000
Expenditures:		
Construction costs	<u>332,000</u>	<u>0</u>
Operating surplus/(deficit)	\$ (32,000) =====	\$ 300,000 =====

The only difference is that First Nation A is following current accounting rules while First Nation B is following the new PS 3150 rules. Clearly the new rules result in a better financial picture than the current rules.

Many funding agencies are concerned with the resulting ‘overstated’ operating surpluses, and not being able to monitor and match capital transfers to capital expenditures.

PSAB’s April 2009 re-exposure draft, if approved, is expected to address this issue by distinguishing between government transfers for operating purposes and government transfers for capital purposes. Government transfers for operating purposes would continue to be treated in the same way as they are today – no changes.

Government transfers for capital acquisitions or construction would be deferred on the Statement of Financial Position and would be recognized in the Statement of Revenue and Expenditures at the same time and rate as the related expenditure, i.e. by an amount similar to amortization.

Accordingly, if approved, and First Nation B opted to adopt early the recommendations of the re-exposure draft, the comparison would now be as follows:

Comparative Statements of Revenue and Expenditures

	<u>First Nation A</u>	<u>First Nation B</u>
Revenue:		
INAC	\$ 300,000	\$ 300,000
Less: Revenue deferred for TCA		(300,000)
	\$ 300,000	0
Total revenue		
Expenditures:		
Construction costs	332,000	0
Operating surplus/(deficit)	\$ (32,000)	\$ 0

As can be seen by this illustration, there continues to be a difference but the difference is now due only to the deficit. If the construction costs had come in on budget, there would be no difference.