PRACTICE GUIDANCE

Unrecognized Assets, Contingent Assets and Contractual Rights Disclosures

Effective April 1, 2017

The Public Sector Accounting Board (PSAB) recommends disclosure of unrecognized assets, contingent assets and contractual rights in the notes to the Summary Financial Statements beginning on or after April 1, 2017.

This guidance is prepared to ensure there is complete and consistent information provided across all entities within the Government Reporting Entity (GRE).

Disclosure of Unrecognized Assets (PS3210)

An unrecognized asset is an economic resource that may meet the definition of asset. However;
   a. it is not capable of being recognized in the financial statements because an appropriate basis of measurement and a reasonable estimate of the amount involved cannot be made; or
   b. other Handbook Sections prohibit its recognition.

Examples of unrecognized assets may include:
   • Inherited Crown lands, forests, water and mineral resources;
   • Art collections, historical collections or intangible assets.

The following information is required for disclosure (PS3210.32):
   • the major categories of unrecognized assets;
   • the reason(s) when a reasonable estimate of the amount involved cannot be made.

Disclosure of Contingent Assets (PS3320)

Characteristics of contingent assets:
   • Contingent assets arise from unplanned or unexpected events that pertain to an existing condition or situation;
   • Distinct from assets, the existence is uncertain at the financial statement date;
   • The uncertainty will be resolved when future events not wholly within ministry or entity’s control occur or fail to occur;
   • The resolution of the uncertainty will confirm whether an asset exists;
   • Contingent assets apply to circumstances where the existence of an asset is uncertain, not merely where the amount is uncertain.
Examples of possible contingent assets may include:

- Insurance claims;
- Litigation settlements.

Evaluate existing conditions or situations that may give rise to a contingent asset of $100,000 or more for disclosure requirements.

Assessment of the likelihood of a future event determines the disclosure of contingent assets:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Likely &gt;70%</th>
<th>Unlikely</th>
<th>Not determinable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimable</td>
<td>Disclose</td>
<td>Don’t disclose</td>
<td>Don’t disclose</td>
</tr>
<tr>
<td>Not estimable</td>
<td>Disclose</td>
<td>Don’t disclose</td>
<td>Don’t disclose</td>
</tr>
</tbody>
</table>

When the occurrence of the confirming future event is likely, provide the following information for disclosure; sensitivity or confidentiality of the information should also be considered to avoid adverse effect:

- The nature, including a description of the circumstances giving rise to the uncertainty and information about the anticipated resolution of the uncertainty;
- The extent, including an estimate of the amount or a range of possible amounts;
- The reason(s), if the extent can’t be disclosed;
- The basis for the estimate.

**Disclosure of Contractual Rights (PS3380)**

A contractual right exists when a legally binding contract or agreement has been signed with a party outside the GRE that will result in both an asset and revenue in the future, when the terms of the contract/agreement are met.

Contractual rights arise from, but are not limited to:

- Lease contracts;
- Licence agreements;
- Sales contracts.

Contractual rights are distinct from items such as:

- Assets;
- Contingent assets;
- Certain public sector entity rights derived from legislation such as the right to tax or the right to licence;
- Derivatives.
At fiscal year-end, OCG will request the information in a prescribed format to prepare for the note disclosure. All contractual rights, individually or collectively, exceeding the threshold of $50 million will be disclosed in the notes to the Summary Financial Statements with details of description about the nature and extent and the timing.

Consider the following guidelines for reporting contractual rights:

- If an amount has been recognized in the financial statements (e.g. cash or deferred revenue), it is no longer a contractual right;
- Only include contracts signed by March 31 and provide the breakdown by year for the remaining terms of the contracts;
- Smaller contracts (i.e. individual contract over $100,000) that are similar in nature should be grouped together; types of contracts may include leases, sales and services agreements etc. OCG will review and determine if collectively similar contracts should be disclosed in the Summary Financial Statements;
- When the timing or the amount of the future contractual rights is not clearly stated in the contract, provide the best estimate or describe the information contained in the contract;
- If a contract or group of contracts that was previously included in contractual rights falls below the threshold, continue to report it until it is completed or terminated;
- Government transfers related to program delivery such as health, welfare and education would only be included if they meet the definition of a contractual right. For example, a government transfer subject to appropriation by the transferring government is not a contractual right;
- Exclude contracts with entities within the GRE; a list of GRE can be found at http://gww.fin.gov.bc.ca/gws/ocg/fras/FRAS_Fin_Rpt.stm
- Contracts in a foreign currency should be translated to Canadian dollar at March 31.

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