

Government Transfers

April 2007

**COMMENTS MUST BE RECEIVED BY
SEPTEMBER 15, 2007**

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

An Exposure Draft proposes accounting standards or recommended practices that the Board expects to include in the CICA Public Sector Accounting Handbook.

Individuals, governments and organizations are invited to send written comments to the Board on the standards or practices set forth. Comments are requested from those who agree with the Re-Exposure Draft as well as from those who do not.

One month after publication of new Handbook material, all comments received will be available on a public file unless confidentiality is requested.

To be considered, comments must be received by September 15, 2007, addressed to:

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

For ease of handling, we prefer comments to be sent by e-mail (in Word format), to:
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.

Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following re-exposure, to issue revised GOVERNMENT TRANSFERS, Section PS 3410. The Section would apply to all levels of government.

Main features of the Re-Exposure Draft

The main features of this Re-Exposure Draft are as follows:

- Government transfers are transfers of monetary assets or tangible capital assets from a government to an individual, an organization or another government for which the government making the transfer does not:
 - (a) receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;
 - (b) expect to be repaid in the future, as would be expected in a loan; or
 - (c) expect a direct financial return, as would be expected in an investment.
- A transferring government should recognize an expense when a transfer has been authorized and any eligibility criteria have been met.
- A recipient government should recognize revenue when a transfer has been authorized and any eligibility criteria have been met, except when and to the extent that the transfer stipulations create a liability in accordance with LIABILITIES, Section PS 3200.
- A liability for a recipient government can only arise when transfer stipulations establish both specific performance requirements not yet met as well as identifiable and enforceable return requirements.
- When a transfer is initially recognized as a liability by a recipient, revenue is recognized as the transfer stipulations are subsequently met.
- A determination that a transfer is authorized at the financial statement date requires evidence of the:
 - (a) authority to enter into a transaction, which is conveyed through approved legislation, regulations or by-laws; and
 - (b) exercise of that authority by the financial statement date.

Consequential amendment

This Re-Exposure Draft proposes a consequential amendment to RESTRICTED ASSETS AND REVENUES, Section PS 3100.

Changes to the August 2006 Exposure Draft

PSAB is proposing significant changes to recipient government accounting for transfers in the Re-Exposure Draft. It describes the circumstances when a recipient government would recognize revenue and a liability for a transfer.

The Re-Exposure Draft proposes no changes in the accounting by a transferring government or to determining when a transfer is authorized.

Background

PSAB recognizes that the issue of accounting for transfers is controversial. After extensive consultation, in August 2006, PSAB issued an Exposure Draft (ED) that proposed, subject to authorization and eligibility criteria being met, immediate recognition of a transfer in expenses by a transferring government and in revenue

by a recipient government. A number of respondents to the August 2006 ED did not support these proposals, particularly relating to recipient accounting.

Subsequent to the approval of the ED, in January 2007 International Public Sector Accounting Standard IPSAS 23 on *Revenue from Non-Exchange Transactions (Taxes and Transfers)* (IPSAS 23) was approved.

After reviewing respondents' comments on the ED and evaluating the requirements in IPSAS 23, the Board agreed to revisit the issue and determined that it may be possible, depending on the stipulations inherent in the agreement, that a transfer received could meet the definition of a liability.

Basis for conclusions

Recipient government

The proposals in the Re-Exposure Draft require a transfer to be recognized as revenue in the period the transfer is authorized and any eligibility criteria are met, except when and to the extent that the transfer stipulations create a liability in accordance with LIABILITIES, Section PS 3200. This proposal is similar to IPSAS 23.

The nature, extent and specificity of the transfer stipulations are fundamental to distinguishing revenue from liability. If the transfer stipulations establish both substantive performance and return requirements, the recipient will initially recognize a liability and revenue will be subsequently recognized as the stipulations are met.

When substantive performance and return requirements are included in the stipulations, this creates a liability for a recipient government. The recipient government has no discretion to avoid the sacrifice of future economic benefits (i.e., either to the ultimate beneficiaries of the goods or services to be provided or back to the transferor). A present obligation is imposed on a recipient government by its acceptance of a transfer with both substantive performance and return requirements.

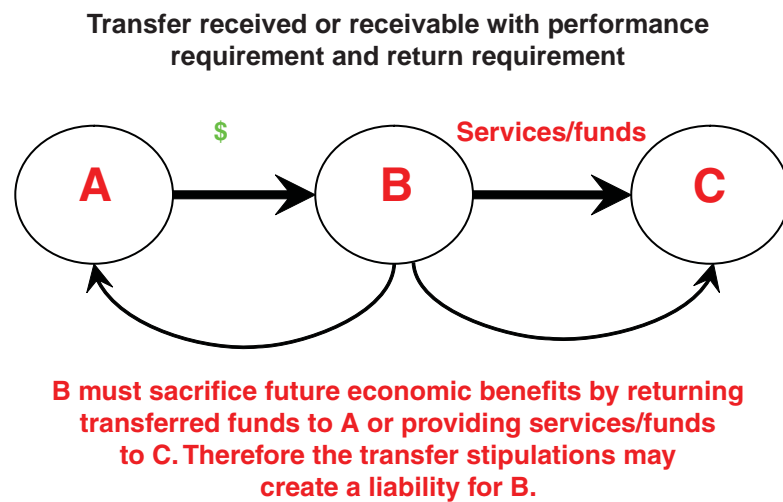
A performance requirement has substance when it is specifically identifiable and permits the objective assessment of non-compliance. Normally, a performance requirement is identifiable when the stipulations define the nature of the future economic benefits to be sacrificed by the recipient through a specific purpose stipulation combined with time stipulations. This leaves the recipient with little or no discretion over the use of the asset and the time period it is to be used.

A return requirement has substance when it is specifically identifiable, related to a breach of the performance requirements and enforceable. The nature and extent of the accountability stipulations included in the transfer terms would be evaluated to determine if they impose an identifiable and enforceable return requirement on a recipient government. Stipulations would not create a liability unless the return requirement is sufficiently explicit to ensure that the recipient must use the resources as specified or return the resources or their equivalent to the transferor. It is the existence of an explicit, substantive return requirement coupled with a substantive performance requirement that indicates a recipient has lost its discretion to make individual choices, judgments or decisions relating to the asset, thus prompting liability recognition.

Stipulations would not create a liability unless the performance requirement is defined in a manner that permits objective assessment of non-compliance. If non-compliance cannot be objectively assessed, determining when a return requirement would be triggered also cannot be assessed. The return requirement would lack sufficient enforceability and the stipulations would not create a liability for a recipient government.

A performance requirement alone is insufficient, as the recipient retains some discretion to avoid the sacrifice of resources back to the transferor. An implied requirement to return resources to the transferor is also insufficient to remove the recipient government's discretion.

The following diagram illustrates B's limited choices as a recipient of a transfer with both substantive performance and return requirements.



Transferring government

A transaction that meets the definition of a government transfer for a transferring government does not meet the definition of an asset¹ and, therefore, is not recognized as such in government financial statements.

For the transferor, a transfer is not an exchange transaction equivalent to a purchase or sale, an investment or a loan. By definition, a transferor gives away economic resources and thus reduces the resources that it holds itself. It does not directly receive a benefit that is economic in exchange for transferred resources, as would be required by the asset definition. Thus, a transferring government incurs an expense and does not acquire an asset when providing a transfer. Transfers are a redistribution of wealth. They may provide funding to recipients to provide goods or services to the population but the transferor does not acquire those services for itself as would occur, for example, in a purchase of insurance for a future period.

¹ See FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.35-.38.

Comments requested

PSAB welcomes comments on all aspects of the proposed revised Section PS 3410. Comments are most helpful if they are related 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.

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

1. Do you agree that on initial recognition a recipient government would recognize a transfer in revenue except when and to the extent that the transfer stipulations create a liability in accordance with LIABILITIES, Section PS 3200?
2. Do you agree that revenue would subsequently be recognized as the transfer stipulations are met?
3. Do you agree that for transfer stipulations to create a liability for a recipient government, they must impose both a substantive performance requirement and a substantive return requirement on the recipient government?
4. Do you agree with paragraph PS 3410.22(a) that a performance requirement must be identifiable from the transfer stipulations and permit the objective assessment of non-compliance?
5. Do you agree with paragraph PS 3410.22(b) that a return requirement must be identifiable from the transfer stipulations, related to a breach of performance requirements and enforceable?
6. Do you agree that a performance requirement would be identifiable when the transfer stipulations impose both a specific purpose stipulation and a specific time stipulation?
7. Do you agree that broad functional or purpose descriptions such as “health”, “education”, “transportation”, “operating” or “capital” would not be specific enough for assessing non-compliance with the performance requirement?
8. Do you agree that if the accountability stipulations do not allow for the monitoring of compliance with the performance requirements, the timing of when a return requirement would be triggered cannot be assessed and a liability cannot be recognized?
9. Do you agree that a monetary capital transfer recognized as a liability by a recipient would be subsequently recognized in revenue as the transfer stipulations are met?
10. Do you agree that a tangible capital asset transfer recognized as a liability by a recipient would be recognized in revenue as the transfer stipulations are met?
11. Do you agree with an effective date of January 1, 2009?
12. Do you agree that ACCOUNTING CHANGES, paragraph PS 2120.13, applies for purposes of the transitional provisions?

Government Transfers

TABLE OF CONTENTS

	PARAGRAPH
Purpose and scope01-.06
Recognition07-.36
Initial recognition09-.31
Transferring government09-.14
Recipient government.....	.15-.26
Stipulations21-.26
Authorization.....	.27-.31
Subsequent recognition — recovery or repayment32-.36
Transferring government33-.35
Recipient government.....	.36
Presentation and disclosure37-.42
Transitional provisions43
Glossary	Gloss
Applying the recognition criteria	Appendix A

PURPOSE AND SCOPE

- .01 This Section establishes standards on how governments should account for and report government transfers from both a transferring government and a recipient government perspective.
- .02 In this Section, terms that appear in **bold type** are defined in the glossary.
- .03 Appendix A applies the recognition criteria to two specific types of transfers, **entitlements** and **transfers under shared cost agreements**, distinguishing them from other transfers.
- .04 Government transfers are transfers of **monetary assets** or **tangible capital assets** from a government to an individual, an organization or another government for which the government making the transfer does not:
 - (a) receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;
 - (b) expect to be repaid in the future, as would be expected in a loan; or
 - (c) expect a direct financial return, as would be expected in an investment.
- .05 This Section does not deal with:
 - (a) transfers made through a tax system;¹
 - (b) grants in lieu of taxes;²
 - (c) settlements of lawsuits or other types of legal compensation provided by governments;

¹ Transfers made through a tax system are not addressed in this Section because the nature of tax expenditures and the complexity of the issues involved in addressing this topic need to be specifically addressed in a future project.

² However, governments are not precluded from applying the standards if, in their judgment, the standards are appropriate because their grants in lieu of taxes have the characteristics of government transfers.

- (d) Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) payments;³
- (e) Old Age Security (OAS) payments;⁴ and
- (f) transfers of **non-monetary assets** other than tangible capital assets, such as transfers of purchased natural resources and rights, transfers of equity investments, transfers of items inherited in right of the Crown or transfers of works of art and historical treasures⁵.

.06 Government transfers do not include:

- (a) taxes or other money collected by one government on behalf of another government or organization, including local government requisitions; and
- (b) flow-through arrangements where a government agrees to act merely as an intermediary to administer funds on behalf of another party and has no ability to make decisions regarding the use of the funds.

Taxes or other money collected by one government on behalf of another and subsequently disbursed to that other government are not government transfers. Similarly, when funds are received as a result of an administrative flow-through arrangement in which a recipient government serves only as a cash conduit — that is, it has no direct financial involvement in the program or decision-making capability in relation to the program — the receipt and disbursement of cash would not be recognized as transfers in that recipient government’s financial statements.

RECOGNITION

.07 All government transfer programs are discretionary and wholly under the direction of the transferring government, although negotiation regarding transfer terms does occur. The transferor also has the ability to impose **eligibility criteria**, as well as **stipulations** on the use of transferred resources.

.08 Eligibility criteria describe who an entity must be or what it must do in order to get a government transfer. Stipulations describe how a recipient must use transferred resources in order to keep them. Transfer stipulations do not affect the timing of recognition of a transfer in expenses by a transferring government. Stipulations may affect the timing of recognition of a transfer in revenue by a recipient government. Examples of eligibility criteria and stipulations are set out in the glossary.

Initial recognition

Transferring government

.09 ► *A government transfer should be recognized by a transferring government as an expense in the period the transfer is authorized as described in paragraph PS 3410.28 and eligibility criteria, if any, have been met by the recipient.*

³ CPP and QPP payments are not considered to meet the definition of a government transfer. In addition, they are the subject of a future PSAB project to consider the proposals in the International Public Sector Accounting Standards Board (IPSASB) project on Social Benefits.

⁴ OAS payments are the subject of a future PSAB project to consider the proposals in the IPSASB project on Social Benefits.

⁵ In accordance with FINANCIAL STATEMENT CONCEPTS, Section PS 1000, all intangibles, and items inherited by right of the Crown, such as Crown lands, forests, water and mineral resources, as well as works of art and historical treasures, are not recognized in government financial statements.

- .10 When a transferor provides a transfer before eligibility criteria have been met the criteria are deemed to be met for the purposes of paragraph PS 3410.09.
- .11 The recognition standard in paragraph PS 3410.09 applies equally to operating transfers, **capital transfers** and **transfers of tangible capital assets**.
- .12 Given the non-exchange nature of government transfers described in paragraph PS 3410.04, a transferor does not receive a direct economic benefit that it can control in exchange for a transfer, as is required by the definition of an asset.⁶ As a result, the transferor incurs an expense and does not acquire an asset by providing a transfer.
- .13 The transfer of a tangible capital asset is recognized as an expense by a transferring government at the net book value of the tangible capital asset transferred.
- .14 Some transfer programs may require eligible recipients to apply and meet eligibility criteria only once; other programs may require periodic application as well as evidence of ongoing eligibility (i.e., continually meeting the eligibility criteria) over the periods funded. The nature and extent of the eligibility criteria may have an impact on the extent of a transferring government's obligation under a transfer program at the **financial statement date**.

Recipient government

- .15 ► *A government transfer should be recognized by a recipient government as revenue in the period the transfer is authorized as described in paragraph PS 3410.28 and eligibility criteria, if any, have been met by the recipient, except when and to the extent that the transfer stipulations create a liability in accordance with LIABILITIES, Section PS 3200.*
- .16 Transfer terms described as eligibility criteria but not met before a transfer is provided by the transferor would be considered stipulations for the purposes of paragraph PS 3410.15.
- .17 ► *A liability recognized in accordance with paragraph PS 3410.15 should be reduced and an equivalent amount of revenue recognized as the transfer stipulations are met.*
- .18 The standards in paragraphs PS 3410.15 and PS 3410.17 apply equally to an operating transfer, a capital transfer and a transfer of a tangible capital asset.
- .19 For a capital transfer recognized as a liability in accordance with paragraph PS 3410.15 transfer stipulations would require revenue recognition as the related asset:
 - (a) is acquired or developed; or
 - (b) is used to provide goods or services to third parties over the specified period up to a maximum of its useful life.
- .20 The transfer of a tangible capital asset would be recognized by a recipient government in the amount of the asset's fair value (see TANGIBLE CAPITAL ASSETS, Section PS 3150). For a transfer of a tangible capital asset recognized as

⁶ See FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.35-.38.

a liability in accordance with paragraph PS 3410.15 transfer stipulations would require revenue recognition as the asset is used to provide goods or services to third parties over the specified period up to a maximum of its useful life.

Stipulations

- .21 ► *To create a liability for a recipient government in accordance with paragraph PS 3410.15, transfer stipulations should collectively establish both substantive performance and return requirements.*
- .22 Performance and return requirements are substantive when:
- (a) The performance requirement is identifiable from the stipulations and permits objective assessment of non-compliance.
 - (b) The return requirement is identifiable from the stipulations, related to a breach of the performance requirements and enforceable.
- When stipulations establish both types of requirements, a recipient government loses its discretion to avoid a sacrifice of future economic benefits. It must either use the transferred resources as specified or return them or their equivalent⁷ to the transferor.
- .23 Normally, a performance requirement is identifiable when the stipulations:
- (a) define the nature of the future economic benefits to be sacrificed by the transfer recipient through a **purpose stipulation** that leaves the recipient with little or no discretion over the use of the transferred resources; and
 - (b) establish future **time stipulations** that leave the recipient with little or no discretion over the period(s) in which the transferred resources are to be used or consumed. LIABILITIES, Section PS 3200, requires that the timing of the sacrifice of economic benefits in the future be specified.
- .24 Transfer terms that require ongoing monitoring of performance and impose related consequences for non-compliance are called **accountability stipulations**. The nature and extent of the accountability stipulations would be evaluated to determine if they impose an enforceable return requirement on a recipient government. In the absence of an enforceable return requirement in the stipulations, a recipient government would not recognize a liability in relation to a transfer. It is this additional requirement that removes any discretion of the recipient government to avoid a sacrifice of future economic benefits related to the transferred resources.
- .25 Stipulations would not create a liability for a recipient government unless the performance requirement is defined in a way that permits objective assessment of non-compliance. A broad functional description such as “health”, “education” or “transportation” or a broad purpose stipulation such as “operating” or “capital” would not be specific enough for non-compliance with the performance requirement to be objectively assessed. If non-compliance cannot be objectively assessed over the term of a liability recognized in accordance with paragraph PS 3410.15, the timing of when a return requirement would be triggered also cannot be assessed. In such cases, the return requirement lacks

⁷ The transferred resources or an equivalent amount of future economic benefits would be returned to the transferor or other consequences would apply as described under “accountability stipulations” in the glossary. The amount of resources returned or other consequences would depend upon the extent to which the performance requirement(s) under the transfer agreement have already been fulfilled at the time the breach of terms is identified.

sufficient enforceability and therefore the stipulations would not create a liability for a recipient government.

- .26 If the accountability stipulations do not allow for the monitoring of performance over the term of a liability recognized in accordance with paragraph PS 3410.15, the timing of when a return requirement would be triggered cannot be assessed and the stipulations would not create a liability for a recipient government.

Authorization

- .27 The past event that creates a liability⁸ for a transferring government to provide a transfer or creates a transfer receivable⁹ for a recipient government, comprises both the meeting of eligibility criteria by a transfer recipient and the authorization of the transfer as set out in paragraph PS 3410.28.
- .28 ► *A determination that a transfer is authorized requires evidence at the financial statement date of:*
(a) *the authority to enter into a transaction, which is conveyed through approved legislation, regulations or by-laws; and*
(b) *the exercise of authority under legislation, regulations or by-laws in place.*
- .29 One of the requirements for recognition is the authorization of the transfer in accordance with paragraph PS 3410.28 at the financial statement date. Thus, the final approval of legislation, regulations or by-laws authorizing a transfer in the **stub period** would not support recognition of the transfer at the financial statement date. When a transfer qualifies for recognition at the financial statement date in accordance with this Section, events occurring in the stub period may, however, require the adjustment of the amounts already recognized. SUBSEQUENT EVENTS, Section PS 2400, provides details regarding how the effects of subsequent events should be considered in the preparation of financial statements.
- .30 Legislation, regulations or by-laws usually set out the actions that would comprise an exercise of authority as required by paragraph PS 3410.28(b). In such cases, the transferring government, by establishing eligibility criteria and identifying the actions that comprise an exercise of authority, explicitly specifies the terms under which it will give up its discretion relating to the transfer. When the actions that would comprise an exercise of authority are not explicitly set out, other evidence in existence by the financial statement date would be evaluated to determine if the transferring government has exercised its authority for the purposes of paragraph PS 3410.28(b). Such evidence must establish, when considered along with the degree of compliance with transfer's eligibility criteria, that the transferring government is left with little or no discretion to avoid a liability in relation to the transfer. LIABILITIES, paragraph PS 3200.08, provides additional guidance for determining when such discretion has been lost, and therefore assists in determining when a government's exercise of authority is deemed to have occurred.

⁸ See LIABILITIES, paragraph PS 3200.05(c).

⁹ See FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.36(c).

- .31 The authority to pay is not crucial to determining when a transferring government has a liability. The economic decision to make the transfer is evidenced by the exercise of authority under legislation, regulations or by-laws in place at the financial statement date. The timing of when the economic decision to provide the transfer is made by exercise of authority is the crucial authorization event for establishing the appropriate timing of recognition of a transfer. The authority to pay, evidenced by a supply or appropriations act or special warrant or local government budget, need not be passed by the financial statement date. For example, an entitlement program such as welfare that has gone over budget because of a greater number of eligible recipients in the accounting period than expected still creates a liability for the transferring government at the financial statement date even if the supply act authorizing the additional funding has not been approved by the financial statement date.

Subsequent recognition — recovery or repayment

- .32 Subsequent to initial recognition of a transfer, the ability of a transfer recipient to fulfill transfer stipulations or meet other transfer terms may come into question.

Transferring government

- .33 ► *A transferring government should not accrue a contingent recovery of a government transfer in the financial statements.*
- .34 ► *When it is likely that a future event will confirm that an asset has been acquired or a liability reduced at the financial statement date, a transferring government should disclose the existence of a contingent recovery related to a transfer in the notes to the financial statements. The likelihood that the transfer recipient will not meet the transfer stipulations or other terms associated with a transfer, and the likelihood of the realization of a recovery in such circumstances, should be evaluated in determining the nature of the disclosure. Disclosure should include the nature of the contingent recovery and an estimate of the amount of the contingent recovery, or a statement that such an estimate cannot be made.*
- .35 ► *When it is certain that a transfer recipient will not meet transfer stipulations or other transfer terms, the transferring government should accrue a receivable for the realizable portion of the transfer.*

Recipient government

- .36 ► *Revenue recognition of a transfer recognized as a liability in accordance with paragraph PS 3410.15 should cease and the carrying amount of the liability should be adjusted to reflect the return requirement set out in the transfer terms when:*
- (a) transfer stipulations remain unsatisfied; and*
 - (b) it is likely that the transfer recipient will not meet those stipulations.*

PRESENTATION AND DISCLOSURE

- .37 Revenues, expenses, liabilities, recoveries and repayments related to government transfers would be presented in the financial statements in accordance with FINANCIAL STATEMENT PRESENTATION, Section PS 1200.

- .38 In addition, a description of the accounting policies regarding government transfers and information on the major kinds of transfers made or received is useful in understanding the sources and types of revenue a government receives and the programs and activities it undertakes.
- .39 ► *Financial statements should disclose major kinds of transfers made or received.*
- .40 In many cases, the disclosure of revenue in the financial statements by significant type of revenue will be sufficient because most transfers received from another government are related to large transfer programs that would be listed separately, such as federal / provincial Equalization, health and social funding, shared cost programs, and local government operating and capital grants. Additional information about transfer revenue may be provided as part of a government's segmented information disclosed in accordance with SEGMENT DISCLOSURES, Section PS 2700.
- .41 Expenses for some major kinds of transfers may also be shown in the statement of annual results if significant activities of a function or major program are displayed. However, some governments may choose to disclose major transfers made in the notes or a schedule to the financial statements by, for example, describing major transfer programs. Additional information about transfer expenses may be provided as part of a government's segmented information disclosed in accordance with SEGMENT DISCLOSURES, Section PS 2700.
- .42 This Section does not require symmetrical accounting by the transferor and recipient of a government transfer. Symmetrical accounting by the parties to a transaction is not a fundamental principle of accounting theory. In some cases, when it reflects the substance of the transaction for all parties to a transfer, symmetrical accounting will result. In others, the evidence available to support recognition or the ability to estimate the transfer may vary between the transferor and recipient and symmetrical accounting will not occur.

TRANSITIONAL PROVISION

- .43 This Section applies for fiscal years beginning on or after January 1, 2009. Earlier adoption is encouraged.

GLOSSARY

A **capital transfer** is a transfer of money or other monetary assets to another party with transfer stipulations that specify that the transferred resources are to be used for the acquisition or development of a tangible capital asset or assets. In addition, transfer stipulations may or may not also specify the future use of the asset(s) required to be acquired or developed by the recipient. (Contrast with “a transfer of a tangible capital asset”.)

Eligibility criteria are terms imposed by a transferring government that specify who is eligible to receive a transfer and/or the actions necessary to receive a transfer. (Contrast with “stipulations”.) Eligibility criteria include the following:

Required characteristics of recipients — Eligibility criteria set out by the transferring government that specify the characteristics that a transfer recipient must have in order to qualify for a transfer. In some cases, eligible recipients may have to apply and provide evidence that they have the required characteristics. This is often the case for entitlements. However, in other cases, these characteristics require no action by recipients — they either have the characteristics or they do not. Examples include the type of recipient organization or individual, the size of a recipient organization and the location of a recipient organization or individual.

Reimbursements — Eligibility criteria set out by the transferring government that specify that the transferor offers resources on a reimbursement (expenditure-driven) basis. In order to qualify for such a transfer, a recipient must have incurred allowable expenditures under the applicable program. An example is a transfer under a shared cost agreement.

Dependencies — Eligibility criteria set out by the transferring government that specify that the transferor’s offer of resources is dependent upon a specified action of the recipient. The specified action must be accomplished in order for the recipient to qualify to receive a transfer. Examples include requiring a recipient to raise a specific amount of resources from third parties before it can qualify to receive a transfer, requiring a recipient to match the transferring government’s offer of resources before it can qualify to receive a transfer and requiring a recipient to complete the hiring of a certain number of new full-time employees before it can qualify to receive a transfer.

Entitlements are transfers that a government must make if the recipient meets specified eligibility criteria. For such transfers, both:

- (a) “who” is eligible to receive the transfer and
- (b) “how much” is transferred;

are prescribed in legislation, regulations or by-laws. The exercise of authority to provide the transfer is coincident with the approval of the authorizing legislation, regulations or by-laws and the meeting of any eligibility criteria.

The **financial statement date** is the date at which a government is reporting its financial position and changes in financial position (for example, the fiscal year end).

Monetary assets are money or claims to future cash flows that are fixed or determinable in amounts and timing by contract or other arrangement. Examples are cash, and accounts and notes receivable in cash.

Non-monetary assets are assets that are not monetary. Examples are inventories, investments in common stock and tangible capital assets.

Stipulations are terms imposed by a transferring government regarding the use of transferred resources. Stipulations do not include eligibility criteria. Stipulations include the following:

Purpose stipulations — Stipulations set out by the transferring government that specify the purpose(s) for which transferred resources must be used. Examples include the following:

- (a) The resources must be used for the acquisition or development of a capital asset.
- (b) The resources must be used to carry out a particular type of program or research.
- (c) The resources must be used for relocation to a specified region or for hiring a specified number of new employees.

Time stipulations — Stipulations set out by the transferring government that specify when transferred resources must be used, for example:

- (a) a particular period of use (for example, 20X7);
- (b) the date when use is first permitted (for example, April 1, 20X8);
- (c) the start and end date of the period within which the transferred funds must be used (for example, April 1, 20X7 to March 31, 20X9); and
- (d) a pattern of use for the transferred funds in specified annual periods of time (for example, January 1, 20X6- December 31, 20X9 with one quarter of the transferred funds to be used in each reporting period).

Accountability stipulations — Stipulations explicitly set out by the transferring government that specify how the meeting of transfer terms by a recipient will be monitored by or on behalf of the transferor on an ongoing basis and the consequences if the transfer terms are not met. The monitoring may include the submission of accountability reports by the recipient that report the estimated degree of compliance with transfer terms or required disclosure in annual reports. Consequences are penalties for non-compliance with the transfer terms. Consequences may include the return of the transferred resources or their equivalent or the imposition of some other equivalent sanction (for example, clear evidence of a related reduction in future funding).

The **stub period** is the period between the financial statement date (see “financial statement date”) and the date the financial statements are completed.

Tangible capital assets are non-financial assets¹⁰ having physical substance that:

- (a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- (b) have useful economic lives extending beyond the accounting period;
- (c) are to be used on a continuing basis; and
- (d) are not for sale in the ordinary course of operations.

A **transfer of a tangible capital asset** is a transfer of an asset that meets the definition of a tangible capital asset to another party. Transfer stipulations may or may not specify the future use of the transferred asset. (Contrast with “a capital transfer”.)

Transfers under shared cost agreements are a reimbursement of eligible expenditures pursuant to an agreement between the transferring government and the recipient.

¹⁰ Tangible capital assets are defined to include computer software.

APPENDIX A

APPLYING THE RECOGNITION CRITERIA

Entitlements

- A1 There are two types of entitlements: those of individuals and those of other governments or institutions.

Entitlements of individuals

- A2 Most transfers to individuals are entitlements. Governing legislation, regulations or by-laws identify specific eligibility criteria that recipients must meet. Once those criteria have been met, the recipient is entitled to receive the transfer. There are no stipulations attached to how the recipient spends the money. The amount to be transferred is usually specified in the legislation, regulations or by-laws. The amount transferred may vary depending on the circumstances of the recipient.
- A3 A key characteristic of an entitlement is that the government must make the transfer to all individuals who meet the specified eligibility criteria. The key criterion for recognizing an entitlement of individuals is whether the recipient has met significant eligibility criteria.
- A4 Employment insurance benefits are an example of an entitlement individuals receive from the federal government. Individuals may also receive entitlements under provincial or local government social assistance programs. Under such programs, governments may be required to make a series of payments over some future period, but these are future, rather than present, obligations of the government and would not be recognized as liabilities. While there may be legislation in place authorizing the entitlements, no obligation similar to that under a contract or agreement exists until the related recipients meet the criteria for eligibility or the program is delivered. In the case of some entitlements, recipients must continually meet the eligibility criteria to be eligible for the program.
- A5 When a reasonable estimate of the unpaid entitlements to individuals meeting the eligibility criteria at the financial statement date can be made, that estimate would be recorded. Such estimates might be based on past experience or a reliable forecast, taking into account those who are eligible but have not yet applied by the end of the accounting period. It may be difficult, however, in some circumstances, to estimate the amount due to those eligible who have not yet applied. Eligible recipients might not apply until well after the end of the accounting period and, sometimes, experience is not an appropriate basis for estimating the number of eligible recipients who are likely to apply in the future. In such circumstances, receipt of the application might be the most reasonable basis for estimating the amount of the liability.

Entitlements of other governments or institutions

- A6 A number of significant intergovernmental transfers are entitlements. Entitlements of one government from another include such formula-based transfers as: federal / provincial Equalization, health and social funding, and

per capita transfers from provincial governments to local governments. Some transfers to institutions are also entitlements.

- A7 The governing legislation or regulations for these transfers set out the bases for determining the amount of the entitlement. Some, such as federal / provincial Equalization, are based on complex formulae. Others may be calculated on a per capita or other unit basis.

Shared cost agreements

- A8 In a sense, transfers under shared cost agreements are similar to entitlements because the recipient is “entitled” to the transfer once it has incurred eligible expenditures. Shared cost agreements are different from other entitlements, however, because the recipient must spend money to be entitled to any reimbursement. Shared cost agreements are generally established so that a government can reimburse the recipient over time on the basis of eligible expenditures incurred. A choice of this funding arrangement may be indicative of the relationship of the recipient with the government and the government’s need to have a greater degree of influence over the types of expenditures reimbursed or for other accountability reasons. The eligible expenditures under a shared cost agreement might be operating or capital in nature. For example, some infrastructure grants are set up like a shared cost agreement. In such a case, the eligible expenditure would be the purchase of a specified type of infrastructure asset.
- A9 The transferring government may agree to pay for all or only a portion of the eligible expenditures as it may be only one contributor to the funding of a project. The funding of expenditures for a project may be shared by the transfer recipient as well as with other governments or entities. The specific terms of a transfer under a shared cost agreement may be found in legislation or in signed contracts. There may also be a ceiling on the total amount that will be shared. The clearest evidence that a transfer is made under a shared cost agreement is the presence of a negotiated, signed, written agreement at the financial statement date indicating that certain specific expenditures or a portion thereof will be reimbursed by the transferring government. The agreement or other evidence would have to support the contention that the recipient would have real legal recourse against the government to obtain the funds should it incur the specified expenditures. Evaluating whether the agreement has sufficient rigour to support the accounting for the arrangement as a transfer under a shared cost agreement is a matter of professional judgment.
- A10 Transfers under shared cost agreements would be recognized when the recipient incurs eligible expenditures because, under the agreement, the government must reimburse the recipient for the specified percentage of those eligible expenditures.
- A11 When a transfer under a shared cost agreement is flowed in advance of the recipient incurring eligible expenditures, the eligibility criteria are deemed to be met for the purposes of paragraph PS 3410.09.
- A12 By definition, a transfer under a shared cost agreement includes terms describing the eligible expenditures to be incurred before a transfer will be provided by the transferor. If those eligible expenditures have not been incurred by a transfer recipient before a transfer is provided by the transferor

the eligibility criteria would be considered stipulations for the purposes of paragraph PS 3410.15.

Other transfers

- A13 Other transfers include cultural grants, scholarships, research grants, infrastructure grants and regional development grants. In most cases, recipients have to apply for the money or meet some eligibility criteria; however, in contrast to entitlements, applying or meeting eligibility criteria may not guarantee that the recipient will receive the money. The government may still have discretion to decide whether or not to make the transfer and who to provide it to. There is usually a ceiling on the total amount that may be transferred under a particular grant program and some grant recipients are subject to performance requirements.
- A14 Because grants are discretionary, the government cannot be obligated to provide a grant until the grant is authorized as described in paragraph PS 3410.28. At that point, the transfer becomes, in effect, non-discretionary and would be a liability of the government once eligibility criteria, if any, are met.
- A15 Some transfers may appear to have characteristics of more than one type of transfer. For example, some provincial transfers to hospitals and universities may have characteristics of entitlements but may in reality be grants. A provincial government may have a statutory responsibility, or a perceived obligation due to a well-established practice, to maintain the hospitals or universities in its jurisdiction. However, this responsibility does not comprise an entitlement and the transferring government retains some discretion. The government might determine annually the amount that will be transferred and how it will be distributed among the hospitals or universities in its jurisdiction. The amount determined at the beginning of the year might even be changed during the year. Whether a transferring government has a liability in relation to such a transfer at the financial statement date would be evaluated in terms of the authorization requirements in paragraph PS 3410.28, whether any eligibility criteria have been met and the definition of a liability in LIABILITIES, Section PS 3200.

CONSEQUENTIAL AMENDMENT

The following significant consequential amendment has been identified. Additions are underlined, deletions are struck through.

RESTRICTED ASSETS AND REVENUES, Section PS 3100

.01 This Section recommends how to account for and report restricted assets and revenues in the financial statements of governments. The ~~Recommendations standards~~ do not apply to trusts under administration which are excluded from the government reporting entity (see GOVERNMENT REPORTING ENTITY, paragraph PS 1300.40). These standards do not apply to government transfers.¹¹ Government transfers are addressed in GOVERNMENT TRANSFERS, Section PS 3410.

¹¹ The transitional provision relating to this scope restriction is set out in GOVERNMENT TRANSFERS, proposed paragraph PS 3410.43.