

Government Transfers

April 2009

**COMMENTS MUST BE RECEIVED BY
SEPTEMBER 15, 2009**

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.

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

All comments received will be available on the website at www.psab-ccsp.ca ten days after the comment deadline, unless confidentiality is requested.

To be considered, comments must be received by September 15, 2009, addressed to:

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Toronto, Ontario M5V 3H2**

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

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 (Re-ED) are as follows:

- The existing standard for government transfers in Canadian GAAP is being amended to address interpretation and application issues raised by Canadian governments.
- Transferring governments: A transferring government would recognize an expense when the transfer is authorized and recipients have met any criteria that the transferor wants met before it provides the transfer. The same accounting would be used for all types of transfers provided.
- Recipient governments: The Re-ED proposes different approaches for operating transfers than for capital transfers and transfers of tangible capital assets.
 - For an operating transfer, a recipient government would recognize the transfer in revenue when it has been authorized and the recipient has met any eligibility criteria set by the transferor, unless the transfer creates a liability for the recipient. In some cases a liability may exist because the transfer terms direct the use of the funds for specific purposes. In other cases, a liability may exist because the transfer terms and the actions and communications of the recipient government direct the use of the funds for specific purposes. In both of these cases, revenue would be recognized as the liability is satisfied.
 - A capital transfer or a transfer of a tangible capital asset would be recognized as a deferred capital contribution when the transfer has been authorized and recipients have met any criteria that the transferor wants met before it provides the transfer. The deferred capital contribution would be recognized in revenue when the related tangible capital asset is recognized in expenses (for example, as the asset is depreciated). Deferred capital contributions would be reported on the statement of financial position separate from and below non-financial assets.
- Authorization:
 - A transfer is considered authorized for a transferring government when the transfer has been fully authorized (a defined term) or the transferor is demonstrably committed (a defined term) to the transfer and final approval of the related legislation, regulation or by-laws occurs in the stub period.
 - A transfer is considered authorized at the financial statement date for a recipient government when the transfer has been fully authorized.
- The standard would apply to new transfers recognized on or after April 1, 2011.

Consequential amendment

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

Background

Most of the major issues raised to date have related to senior government inter-governmental transfers, in particular transfers received or receivable. Historically, senior government inter-governmental transfers have been provided in a unique environment including: balanced budget legislation at the provincial level, large

federal year-end transfers, shared financing of major projects and initiatives, and two levels of sovereign governments that have the same reporting period and specific and different constitutional responsibilities, as well as taxing powers that may not be proportionate to the extent of those divided responsibilities.

PSAB received 48 responses to the April 2007 Re-ED on government transfers. The proposals in that Re-ED were based on International Public Sector Accounting Standard (IPSAS) 23, *Revenue from Non-Exchange Transactions (Taxes and Transfers)*. Overall, the responses did not indicate sufficient support to proceed to a final standard.

The responses to the April 2007 Re-ED, together with input from the Joint Working Group, were considered in the development of this new Re-Exposure Draft. The major issue with the April 2007 Re-ED proposals related to recipient government accounting. Respondents felt that the circumstances under which liability recognition of transfers received would be allowed did not reflect the reality of senior government circumstances in Canada. The proposals were considered too prescriptive, in particular the return requirement needed to support liability recognition by a recipient government.

Recipient governments

This Re-ED proposes that an operating transfer be recognized as revenue in the period the transfer is authorized and any eligibility criteria are met, unless the transfer gives rise to a liability for a recipient government in accordance with the requirements of LIABILITIES, Section PS 3200. This proposal is consistent with the conceptual framework but allows more application of professional judgment in applying the liability definition than previous proposals.

This Re-ED proposes that a capital transfer or a transfer of a tangible capital asset (defined terms) be initially recognized as a deferred capital contribution when the transfer is authorized and any eligibility criteria have been met. Deferred capital contributions are to be reported separately from and below non-financial assets on the statement of financial position. Deferred capital contributions would be recognized in revenue as the related tangible capital asset is recognized in expenses.

PSAB is proposing to make an exception to the conceptual framework because deferred capital contributions do not meet the definition of a liability. PSAB does not intend this proposal to be a precedent for additional exceptions to the conceptual framework. The decision to provide an exception was a pragmatic one. The Board made a choice between an exception to the framework and an approach that would have allowed such transfers to be recognized as liabilities. The Board chose to recognize these amounts as deferred capital contributions because recording them as deferred revenue in liabilities directly affected the measurement of net debt.

A decision tree illustrating the proposed accounting for transfers by recipient governments is appended to these Highlights.

Authorization

The authorization of large new transfers or transfer programs at year end has been an issue for some governments throughout the project, although most governments have agreed with and appreciated the simplicity of the full authorization requirement recommended in all documents for comment since 2004. “Full authorization” means that by the financial statement date, a government has exercised its authority under fully approved enabling legislation, regulations or by-laws for the transfer.

This Re-ED proposes the possibility that an earlier point of authorization than full authorization might support recognition of a transfer liability/expense by a government acting as a transferor. In describing this earlier point, the Re-ED proposes that a preponderance of evidence that the government is demonstrably committed to the transfer must exist at the financial statement date, consistent with the requirements in paragraphs PS 3200.08-17, and that final approval of the related legislation in the stub period must occur in order to recognize the role of the legislature in finalizing such transactions. This approach is consistent with current federal government practices. This earlier point of authorization is inappropriate for recipient governments as they would not have the evidence to support asset recognition before full authorization is in place.

Implications of the proposals

- The proposals in this Re-ED require an operating transfer to be recognized as revenue in the period the transfer is authorized and any eligibility criteria are met, unless the transfer gives rise to a liability for a recipient government in accordance with the requirements of LIABILITIES, Section PS 3200. This proposal is consistent with the conceptual framework but allows more application of professional judgment in applying the liability definition than previous documents for comment. A new feature of these proposals is that recipient government actions and communications prior to the financial statement date can be considered in evaluating whether there is evidence that an obligation exists that meets the definition of a liability.
- A transfer is considered authorized for a transferring government when the transfer has been fully authorized at the financial statement date, or the transferor is demonstrably committed to the transfer at the financial statement date and final approval of the related legislation, regulation or by-laws occurs in the stub period. In contrast, a transfer is considered authorized at the financial statement date for a recipient government only when the transfer has been fully authorized. Thus the same transfer might be considered authorized for a recipient government in a later fiscal period than for the transferring government, particularly for transfers authorized by transferring governments at or near the financial statement date. A transferor might, for example, recognize an expense for a new transfer at the end of the current fiscal period because it has evidence to support an assertion that it is demonstrably committed to the transfer. In the same scenario, recipient governments would assess the appropriate recognition of the transfer as revenue or a liability only when it is fully authorized in the next fiscal period.
- Under the proposals set out in this Re-ED, a government would recognize a capital transfer received in revenue as the related asset is recognized in expenses, which would normally be over the useful life of the related asset. There is no option to recognize the capital transfer in revenue over a shorter period, such as the period of acquisition or development.
- When a capital transfer is received and is expected to be used to finance a capital asset but the acquisition or development has not occurred by the financial statement date, the capital transfer would be recognized as a deferred capital contribution at the financial statement date. If it is subsequently determined that the transfer will be used for repairs and maintenance or other operating purposes, the accounting for the transfer would be re-evaluated in light of the requirements in the Re-ED for operating transfers received.

- The move away from full authorization, as is proposed for transferring governments, increases the potential for debate on when a transfer is authorized and thus may increase the subjectivity of the related reporting. For example, allowing a “demonstrably committed” authorization point for transferring governments opens up expense recognition to a degree of uncertainty. A government might be encouraged to recognize operating transfers in expenses earlier than it had expected or intended as a result of debate about what constitutes a preponderance of evidence to support authorization and thus liability recognition at the financial statement date.
- This Re-ED proposes that deferred capital contributions should be reported separately from and below non-financial assets on the statement of financial position. This proposed reporting excludes these contributions from the calculation of net debt. In contrast, liabilities related to operating transfers received or receivable would be considered in the calculation of net debt. See example below.

Financial assets	X
Liabilities	
<i>(Including any related to operating transfers)</i>	<u>X</u>
Net debt	<u>X</u>
Tangible capital assets	<u>X</u>
Inventories	X
Total non-financial assets	<u>X</u>
Deferred capital contributions	<u>X</u>
Net assets (accumulated surplus/deficit)	<u><u>X</u></u>

Comments requested

PSAB welcomes comments on all aspects of the Re-ED. 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.

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

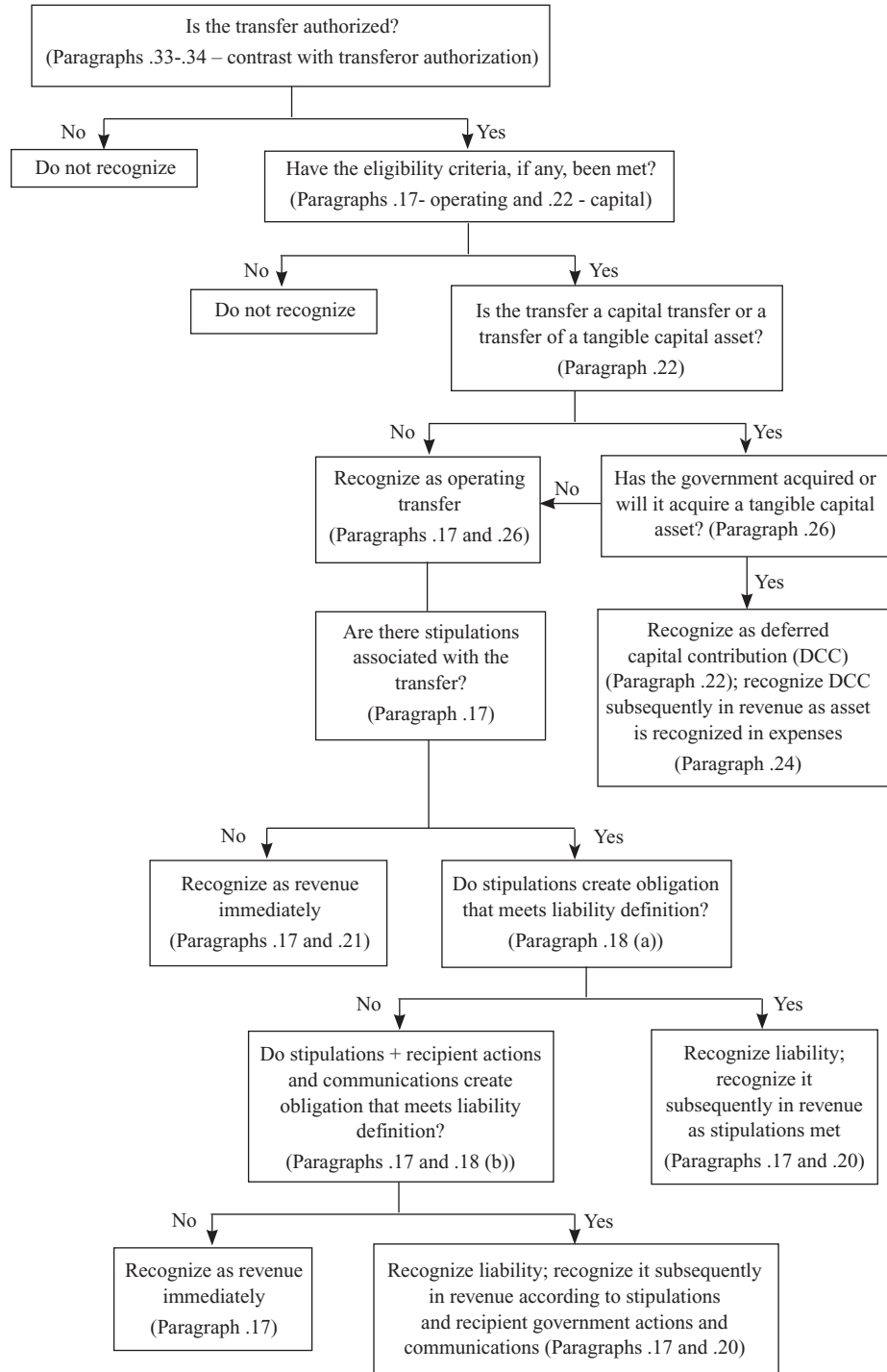
Alternatively, you may send written comments by e-mail in Word format to: ed.psector@cica.ca

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

1. Do you agree with the recognition proposals for transferor accounting? If not, why not?
2. Do you agree with the proposals for recipient government recognition of operating transfers received or receivable? If not, why not?

3. Do you agree with the proposals for recipient government recognition of capital transfers and transfers of tangible capital assets received or receivable? If not, why not?
4. Do you agree with the reporting proposed for deferred capital contributions on the statement of financial position in the Re-ED? If not, why not?
5. Do you agree with the authorization proposals for transferring governments? If not, why not?
6. Do you agree with the authorization proposals for recipient governments? If not, why not?
7. Do you agree with the disclosure requirements for deferred capital contributions in proposed paragraph PS 3410.40? If not, why not?
8. Do you agree with the proposed effective date of April 1, 2011? If not, why not?
9. Do you agree that the standard should apply only to transfers recognized on or after April 1, 2011 and that the new accounting policies would not be applied to any outstanding transfer-related balances existing at the date of adoption? If not, why not?
10. A chart illustrating the proposed recipient government accounting is set out in the decision tree appended to these Highlights. Do you find the chart helpful in determining the appropriate recipient government accounting for a transfer? If so, should the decision tree be considered for inclusion in the final standard?

DECISION TREE — Recipient Government Accounting



Government Transfers

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PURPOSE AND SCOPE

- .01 This Section establishes standards on how governments should account for and report government transfers to individuals, organizations and other governments 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 distinguishes **entitlements and transfers under shared cost agreements** 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 separate project. The distinction between transfers made through a tax system and tax expenditures is currently being evaluated in PSAB's project on [Tax Revenue](#).

² 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; 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 treasures.⁴

.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 (i.e., 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 ultimately discretionary and wholly under the direction of the transferring government, although negotiation regarding transfer terms occurs. The transferor also has the ability to impose transfer terms called **eligibility criteria** and **stipulations**.

.08 Eligibility criteria describe who a recipient must be or what it must do in order to be able to get a government transfer. Stipulations describe how a recipient must use transferred resources or the actions it must perform in order to keep the transfer. No matter how a transfer term is identified in legislation, regulations, by-laws or a transfer agreement (i.e., as an eligibility criterion or a stipulation), the crucial characteristic that distinguishes the substance of these two types of transfer terms is when they are required to be, or are met by recipient(s). If a term is met before the transfer is provided, it is an eligibility criterion. If a transfer term is met after the transfer is provided, it is a stipulation. 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.

.09 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

³ CPP and QPP payments are not considered to meet the definition of a government transfer.

⁴ 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.

support recognition or the ability to estimate the transfer may vary between the transferor and recipient and symmetrical accounting will not occur.

- .10 The past event that creates a liability⁵ for a transferring government to provide a transfer or that creates a transfer receivable⁶ for a recipient government, comprises both the meeting of eligibility criteria by a transfer recipient and the authorization of the transfer as described in paragraph PS 3410.27 for transferring governments and in paragraph PS 3410.33 for recipient governments.

TRANSFERRING GOVERNMENT

- .11 ➤ *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 3410.27 and eligibility criteria, if any, have been met by the recipient.*
- .12 The recognition requirement in paragraph PS 3410.11 applies equally to an **operating transfer**, a **capital transfer** and a **transfer of tangible capital asset**.
- .13 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.⁷ As a result, the transferor incurs an expense and does not acquire an asset by providing a transfer.
- .14 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.
- .15 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

- .16 A government transfer received or receivable may be an operating transfer, a capital transfer or a transfer of a tangible capital asset, or, it may have both operating and capital components. In such cases, the components would be accounted for according to their nature and substance as set out in this Section.

Operating transfers

- .17 ➤ *An operating transfer should be recognized by a recipient government as revenue in the period the transfer is authorized as described in paragraph PS 3410.33 and eligibility criteria, if any, have been met by the recipient, except when and to the extent that the transfer gives rise to a liability for the recipient government in accordance with LIABILITIES, Section PS 3200.*

⁵ See LIABILITIES, paragraph PS 3200.05(c).

⁶ See FINANCIAL STATEMENT CONCEPTS, paragraph PS 1000.36(c).

⁷ See FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.35-.38.

- .18 The determination under paragraph PS 3410.17 as to whether a liability would arise for a recipient government in relation to an operating transfer would be influenced by:
- (a) the terms of the transfer alone; or,
 - (b) the terms of the transfer taken together with the actions and communications of the recipient government before the financial statement date;
- and whether either set of circumstances would create an obligation that meets the definition of a liability in LIABILITIES, Section PS 3200. Under (b), the recipient government would need to take actions and make communications by the financial statement date that are consistent with the substance and intent of the transfer terms.
- .19 Under paragraph PS 3410.18(b), if the recipient government is using the transferred resources received to provide a subsequent transfer, the requirements of paragraph PS 3410.11 would apply in determining whether an obligation that meets the definition of a liability is created at the financial statement date. In particular, paragraph PS 3410.10 clarifies that the past event for such a subsequent transfer comprises both the meeting of eligibility criteria by a transfer recipient and the authorization of the transfer by the financial statement date.
- .20 ► *A liability recognized in accordance with paragraph PS 3410.17 should be reduced and an equivalent amount of revenue recognized in a rational and systematic manner consistent with the circumstances and evidence used to support the initial recognition of the operating transfer as a liability.*
- .21 An operating transfer without stipulations would be recognized as an asset and revenue by a recipient government when the transfer is authorized and any eligibility criteria have been met.

Capital transfers or transfers of tangible capital assets

- .22 ► *A capital transfer or a transfer of a tangible capital asset should be recognized by a recipient government as a deferred capital contribution when the transfer is authorized as described in paragraph PS 3410.33 and eligibility criteria, if any, have been met by the recipient.*
- .23 ► *Deferred capital contributions should be reported on the statement of financial position at their gross amount. Deferred capital contributions should be reported separate from and below non-financial assets on the statement of financial position.*
- .24 ► *A capital transfer or a transfer of a tangible capital asset initially recognized as a deferred capital contribution should be recognized in revenue when, and in proportion to how, the related tangible capital asset is recognized in expenses through amortization or write-down. The remaining balance of a deferred capital contribution should be recognized in revenue when the related asset is sold or otherwise disposed of before the end of its useful life.*
- .25 Consistent with TANGIBLE CAPITAL ASSETS, paragraph PS 3150.05(b):
- (a) capital transfers received or receivable would not be netted against the cost of the related tangible capital asset in determining the net carrying amount of the asset; and

(b) the transfer of a tangible capital asset would be recognized by a recipient government in the amount of the asset's fair value at the time of the transfer.

.26 When a recipient government initially recognizes a capital transfer as a deferred capital contribution on the expectation that it will be used to acquire or develop a tangible capital asset in accordance with the transfer terms, and subsequently determines that the transfer will be used instead for operating purposes (for example, repairs and maintenance), the recipient government would account for the transfer received in accordance with the requirements for operating transfers in this Section.

Authorization

Transferring government

.27 ► *A determination that a transfer is authorized for a transferring government requires evidence at the financial statement date that:*

(a) *the enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of the transferring government, and a decision has been made by the transferring government under that legislation, regulations or by-laws such that it has lost its discretion by the financial statement date to avoid proceeding with a specific transfer or transfers; or*

(b) *a decision has been made by the transferring government such that it has lost its discretion by the financial statement date to avoid proceeding with a transfer and the government is demonstrably committed to approving the enabling legislation, regulations or by-laws for the transfer and providing the transfer.*

.28 The majority of government transfers will be fully authorized by the financial statement date as described in paragraph PS 3410.27(a). In rare cases, full authorization may not yet be in place but the transferring government may have a preponderance of evidence that it is demonstrably committed to both:

(a) approving the legislation, regulations or by-laws related to a transfer or transfer program; and

(b) providing the transfer or transfer program, such that recognition of a liability for the transfer or transfer program at the financial statement date can be justified on the basis that the government has lost its discretion to avoid the obligation for the transfer and the obligation meets the definition of a liability. This situation is most likely to occur in relation to new transfers or new or revised transfer programs occurring at or near the financial statement date.

.29 ► *Final approval in the **stub period** of the enabling legislation, regulations or by-laws is required to confirm that a transferring government was demonstrably committed to approving and providing a transfer at the financial statement date as described in paragraph PS 3410.27(b).*

.30 A government would refer to the guidance in LIABILITIES, paragraphs PS 3200.08-.17, to determine whether it has a preponderance of evidence at the financial statement date that it is demonstrably committed to approving the legislation, regulations or by-laws for a transfer and providing the transfer as described in this Section.

- .31 Individual items of evidence on their own may not be sufficient for determining whether a transferring government is demonstrably committed to approving and providing a transfer at the financial statement date. However, when taken together, there may be a preponderance of evidence indicating that it has. Each circumstance needs to be judged individually given the available information.
- .32 The authority to pay is an additional level of authorization to those described in paragraph PS 3410.27. The authority to pay is not crucial to determining when a transferring government has a liability. 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. A government can have the authority to obligate itself in advance of receiving the authority to satisfy that obligation through payment. For example, a transfer program 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.

Recipient government

- .33 ► *A determination that a transfer is authorized for a recipient government requires evidence at the financial statement date that:*
- (a) the enabling authority to provide a transfer is in place, which is conveyed through approved legislation, regulations or by-laws of the transferring government; and*
 - (b) a decision has been made by the transferring government under the enabling legislation, regulations or by-laws in place such that it has lost its discretion by the financial statement date to avoid proceeding with a specific transfer or transfers.*
- .34 A recipient government recognizes an asset arising from a transfer when:
- (a) it gains control of resources that meet the definition of an asset, and
 - (b) the general recognition criteria set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, are met.
- Transfers satisfy the definition of an asset when the recipient government controls the resources as a result of a past event and expects to receive future economic benefits from those resources. Only full authorization of a transfer as described in paragraph PS 3410.33, together with the meeting of any eligibility criteria, comprise a past event for a recipient government that gives it control of the transfer and justifies the recognition of a transfer receivable. Transfers satisfy the criteria for recognition as an asset when it is expected that the inflow of resources will occur and their value can be reliably measured.

PRESENTATION AND DISCLOSURE

- .35 Revenues, expenses, and liabilities related to government transfers would be presented in the financial statements in accordance with FINANCIAL STATEMENT PRESENTATION, Section PS 1200.
- .36 In addition, a description of the accounting policies regarding government transfers and deferred capital contributions in accordance with the requirements of DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100, and information on the major kinds of transfers recognized in revenue and expenses is useful in

understanding the sources and types of revenue a government receives and the programs and activities it undertakes.

.37 ► *Financial statements should disclose major kinds of transfers recognized in the operating statement in the accounting period.*

.38 In many cases, the disclosure of revenue in the financial statements by significant types of revenue required by FINANCIAL STATEMENT PRESENTATION, Section PS 1200, 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 transfers. 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.

.39 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. This disclosure would supplement the information about total transfer expenses suggested for inclusion in the expenses by object disclosure described in FINANCIAL STATEMENT PRESENTATION, Section PS 1200. 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.

.40 ► *Financial statements should disclose:*

(a) the outstanding deferred capital contributions at the beginning and end of the period;

(b) additions in the period related to new deferred capital contributions;

(c) reductions of deferred capital contributions in the period; and

(d) the amount of amortization of deferred capital contributions for the period.

TRANSITIONAL PROVISIONS

.41 This Section applies to transfers recognized on or after April 1, 2011. Earlier adoption is encouraged.

.42 The new accounting policies would not be applied to any outstanding transfer-related balances existing at the date of adoption.

GLOSSARY

A **capital transfer** is a government transfer of money or other monetary assets to another party with transfer terms that specify that the transferred resources are to be used for the acquisition or development of a tangible capital asset (or assets) by the transfer 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 qualify for a transfer. Their nature and substance are determined by the requirement that they are met before a transfer is provided. (Contrast with “stipulations”.) Eligibility criteria may include the following:

Criteria set out by the transferring government that specify the characteristics that a transfer recipient must have in order to qualify for a transfer — i.e., required characteristics of recipients. 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.

Criteria set out by the transferring government that specify that the transferor offers resources on a reimbursement (expenditure-driven) basis — i.e., reimbursements. 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.

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 — i.e., dependencies. The specified action must be accomplished in order for the recipient to qualify for 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. By their nature, the exercise of authority to provide such transfers 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.

An **operating transfer** is a government transfer that is not a capital transfer or a transfer of a tangible capital asset.

Stipulations are terms imposed by a transferring government regarding the use of transferred resources or the actions a recipient must perform in order to keep a transfer. Their nature and substance are determined by the requirement that they are met after a transfer is provided. (Contrast with “eligibility criteria”) Stipulations may include the following:

Stipulations set out by the transferring government that specify the purpose(s) for which transferred resources must be used — i.e., purpose stipulations.

Examples include:

- (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.

Stipulations set out by the transferring government that specify when transferred resources must be used — i.e., time stipulations. Examples include:

- (a) a particular period of use (for example, 20X10);
- (b) the date when use is first permitted (for example, April 1, 20X9);
- (c) the start and end date of the period within which the transferred funds must be used (for example, April 1, 20X9 to March 31, 20X12); and
- (d) a pattern of use for the transferred funds in specified annual periods of time (for example, January 1, 20X9- December 31, 20X13 with one quarter of the transferred funds to be used in each reporting period).

Stipulations 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 any consequences if the transfer terms are not met — i.e., accountability stipulations. 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 might be 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, 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 assets⁸ 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 government transfer of an asset that meets the definition of a tangible capital asset. (Contrast with “a capital transfer”.)

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

⁸ 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 Many 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 financial statement date. However, in some circumstances, it may be difficult to estimate the amount due to those eligible who have not yet applied. Eligible recipients might not apply until well after the financial statement date, 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 versus financing arrangements

- 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 transfers 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 eligible 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 after they have been incurred. 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 As long as it is authorized as described in paragraph PS 3410.27, a transfer under a shared cost agreement would be recognized by the transferor in expenses as the recipient incurs eligible expenditures because, under the agreement, the transferring government must reimburse the recipient for the specified percentage of those eligible expenditures. A recipient government would not have a receivable for such a transfer until it has incurred eligible expenditures under the agreement and the transfer is authorized as described in paragraph PS 3410.33.

- A11 Financing arrangements may be similar to shared cost agreements in that different parties, such as different levels of government, may jointly finance specific types of costs related to a project. The distinction between shared

cost agreements and financing arrangements is substantially the same distinction between eligibility criteria and transfer stipulations described in paragraph PS 3410.08. Shared cost agreements involve the reimbursement by a transferor to a recipient of eligible expenditures already incurred by the recipient (i.e., expenditures incurred before the transfer is provided). In contrast, financing arrangements involve the provision of resources up front to a recipient to provide the recipient with the financing to be able to incur eligible expenditures.

- A12 If a transfer under a “shared cost agreement” is flowed in advance of the recipient incurring eligible expenditures, the transaction is not in substance a shared cost agreement. In substance, it is more in the nature of a financing arrangement. The incurrence of eligible expenditures is a stipulation to be met by the recipient. Advancing funds before transfer terms described in an agreement as “eligibility criteria” have been met essentially represents a decision of the transferor that the eligible expenditures can be incurred after the transfer has been provided (i.e., a decision that the transaction is more in the nature of a financing arrangement than a shared cost agreement). Therefore, in substance, the requirements to incur eligible expenditures are in the nature of transfer stipulations, and would be considered in determining the appropriate timing of recognition of the transfer in revenue by a recipient government in accordance with paragraphs PS 3410.16-.26. However, although they would remain outstanding terms to be met by the transfer recipient, the requirements to now incur eligible expenditures after the transfer has been provided would not affect the timing of recognition of the transfer by the transferor. Therefore, for the purposes of paragraph PS 3410.11, the transfer would be recognized as an expense by the transferring government when it is provided as long as it has been authorized and any other transfer terms that do meet the definition of eligibility criteria have been met.

Other transfers

- A13 Other transfers can include cultural transfers, scholarships, research transfers, infrastructure transfers and regional development transfers. 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 transfer program and some transfer recipients are subject to performance requirements.
- A14 Because transfers are discretionary, the government cannot be obligated to provide a transfer until the transfer is authorized as described in paragraph PS 3410.27. 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 appear to have characteristics of entitlements but may in reality be discretionary transfers of the government. 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 3410.27, 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 and 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. This Section ~~Recommendations~~ does not apply to:
- (a) trusts under administration, which are excluded from the government reporting entity (see GOVERNMENT REPORTING ENTITY, paragraph PS 1300.40); and
 - (b) government transfers.⁹ Government transfers are addressed in GOVERNMENT TRANSFERS, Section PS 3410.

⁹ The transitional provisions relating to this scope restriction are set out in GOVERNMENT TRANSFERS, paragraphs PS 3410.41-.42.