

Government Transfers May 2010

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

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

Individuals, governments and organizations are invited to send written comments to the Board on the 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. The request for confidentiality must be stated explicitly within the response.

To be considered, comments must be received by September 15, 2010, addressed to:

**Tim Beauchamp, Director
Public Sector Accounting
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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 revise GOVERNMENT TRANSFERS, Section PS 3410. The Section would apply to all levels of government. Responses are requested by September 15, 2010.

A “plain language” document that explains the government transfers proposals, presented in a question and answer format in non-technical language, has been prepared and can be downloaded [here](#).

PSAB staff has also prepared an Issues Analysis document that can be downloaded [here](#). It summarizes the Board’s considerations in reaching the proposals in the Re-exposure Draft by providing background information and discussing alternatives evaluated. It also explains how PSAB has addressed the comments received on the April 2009 Re-exposure Draft in preparing this Re-exposure Draft.

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 is being amended to address interpretation and application issues raised by Canadian governments.
- A transferring government would recognize an expense when the transfer is authorized and recipients have met all eligibility criteria that the transferor requires to be met before it provides the transfer. The same accounting principles would apply to all types of transfers.
- A recipient government would recognize the transfer in revenue when it has been authorized by the transferor and the recipient has met all 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 stipulations direct the use of the funds for specific purposes. In other cases, a liability may exist because the transfer stipulations 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 over time as the liability is settled. The same accounting principles would apply to all types of transfers.
- A transfer is considered authorized for a transferring government when:
 - by the financial statement date, the transfer has received final approval by the legislature or council and an exercise of the related authority has occurred; or
 - the transferor is demonstrably committed to the transfer by the financial statement date and final approval of the related legislation, regulation or by-laws occurs in the stub period.
- A transfer is considered authorized for a recipient government when, by the financial statement date, the transfer has received final approval by the transferring government’s legislature or council and an exercise of the related authority by the transferor has occurred.
- Additional guidance has been added in the proposals to clarify the distinction between eligibility criteria and stipulations and their impact, if any, on the timing of recognition of a transfer. Similarly, guidance has been added to Appendix A to more fully explain how the standard would apply to entitlements, shared cost agreements and other transfers.
- The standard would apply to new transfers recognized on or after April 1, 2012.

Consequential amendment

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

Comments requested

PSAB welcomes comments on all aspects of this Re-ED. As the only issue of significance raised in response to the April 2009 Re-ED (see [Issues Analysis](#)) was capital transfers received, the Board is asking that you focus your feedback on that issue in particular, unless you have new issues or concerns to raise with the other proposals in the document or feel strongly that the Board should re-consider its position on any other proposals.

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

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

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify the groups consulted. Where relevant, it may also be appropriate to identify the source of individual comments in the response. Such identification will promote understanding of how the proposals are affecting various aspects of a government or organization and provide context to PSAB in understanding the comments.

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.

Please respond to the following questions:

1. Do you agree with the proposals for recipient government recognition of capital transfers received or receivable? If not, why not?
2. Do you agree that the standard should apply to fiscal years beginning on or after April 1, 2012? This would mean an effective date of fiscal years beginning on or after January 1, 2013 for most local governments.
3. Do you have any new issues or concerns to raise with the other proposals in the document or feel strongly that the Board should reconsider its position on any other proposals?

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.

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 that are authorized through tax legislation,¹
 - (b) grants in lieu of taxes;²
 - (c) settlements of lawsuits or other types of legal compensation provided by governments;
 - (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

¹ See TAX REVENUE, paragraph PS 3510.41.

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.

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

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 required to be and is met before the transfer is provided, it is an eligibility criterion for the purposes of this Section. If a transfer term is met after the transfer is provided, it is a stipulation for the purposes of this Section. Transfer stipulations do not affect the timing of recognition of a transfer in expenses by a transferring government. However, 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 support recognition or the ability to estimate the transfer may vary between the transferor and recipient and symmetrical accounting will not occur.

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.

- .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 set out in paragraph PS 3410.28 for transferring governments and 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 3410.28 and all eligibility criteria 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 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 liability under a transfer program at the **financial statement date**.

Recipient government

- .16 ► *A transfer without eligibility criteria or stipulations should be recognized as revenue by a recipient government when the transfer is authorized as described in paragraph PS 3410.33.*
- .17 ► *A transfer with eligibility criteria but without stipulations should be recognized as revenue by a recipient government when the transfer is authorized as described in paragraph PS 3410.33 and all eligibility criteria have been met.*
- .18 ► *A transfer with or without eligibility criteria but with stipulations should be recognized by a recipient government as revenue in the period the transfer is authorized as described in paragraph PS 3410.33 and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation that meets the definition of 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.

- .19 The recognition requirement in paragraph PS 3410.18 applies equally to an operating transfer, a capital transfer and a transfer of tangible capital asset.
- .20 The determination under paragraph PS 3410.18 as to whether a liability would arise for a recipient government in relation to a transfer would be influenced by:
- (a) the stipulations of the transfer alone; or,
 - (b) the stipulations 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. Paragraph PS 3410.08 provides guidance for evaluating the extent to which transfer terms meet the definition of stipulations for the purpose of this Section.
- .21 There may be circumstances when the stipulations of a transfer alone are too broad to create an obligation that meets the definition of a liability as set out in paragraph PS 3410.20(a). In such cases, a recipient government would review its own actions and communications by the financial statement date to evaluate whether they are consistent with the substance and intent of the transfer stipulations, and determine whether the nature and extent of those actions and communications together with the transfer stipulations create an obligation that meets the definition of a liability for the purposes of paragraph PS 3410.20(b). A recipient government would refer to LIABILITIES, paragraphs PS 3200.07-.17 and the definition of a liability in order to make this determination.
- .22 Under paragraph PS 3410.20(b), the combination of two events – a government’s receipt of a transfer with stipulations and the recipient government’s own actions and communications – could create an obligation that is consistent with the transferor’s stipulations and meets the definition of a liability. In this case, the recipient government would initially recognize a liability. Revenue would be subsequently recognized as the liability is settled.
- .23 In contrast, if a recipient government receives a transfer without stipulations, the requirements of paragraphs PS 3410.16 or PS 3410.17 would apply. Even if the recipient government creates an obligation for itself before the financial statement date that meets the definition of a liability to use a transfer received without stipulations, the two events would be recognized separately. The transfer would be recognized in revenue by the recipient when it is authorized and all eligibility criteria have been met. The obligation to use the transfer would be recognized as a liability and an expense when it meets the criteria for liability recognition.
- .24 Obligations are not recognized as liabilities unless they meet the three characteristics of liabilities in LIABILITIES, Section PS 3200. Depending on the circumstances, an obligation may or may not arise in relation to:
- (a) an operating transfer;
 - (b) a capital transfer for the purpose of acquiring or developing a tangible capital asset;
 - (c) a capital transfer for the purpose of acquiring or developing a tangible capital asset for use in providing services for a prescribed number of years; or
 - (d) a transfer of a tangible capital asset that is to be used to provide services for a prescribed number of years.
- In each case, a recipient government would examine the transfer stipulations and its own actions and communications related to the transfer as described in

paragraphs PS 3410.20-.23 to determine if they create an obligation that meets the definition of a liability in LIABILITIES, Section PS 3200.

- .25 Under paragraph PS 3410.20(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 (i.e., the recipient government takes the position of a transferor). 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.
- .26 ➤ *A liability recognized in accordance with paragraph PS 3410.18 should be reduced and an equivalent amount of revenue recognized as the liability is settled. Revenue recognition should occur in a manner consistent with the circumstances and evidence used to support the initial recognition of the transfer as a liability.*
- .27 Depending on the circumstances and evidence used to support the initial recognition of a transfer as a liability in paragraphs PS 3410.18-.23, the timing of the revenue recognition of the transfer would be as the related liability is settled. Thus revenue recognition may occur:
- (a) as the transfer stipulations are met; or
 - (b) in accordance with the recipient government's actions and communications that determined the use of the transfer, which is consistent with the substance and intent of the transfer stipulations.
- For a capital transfer, in either of case (a) or (b) revenue recognition may occur over the related asset's useful life or over a lesser period depending on the terms of the liability.

Authorization

Transferring government

- .28 ➤ *For a transferring government, a government transfer is authorized for the purposes of this Section when either the authorization described in (a) or (b) is in place.*
- (a) *There is evidence that both of the following have occurred by the financial statement date:*
 - (i) *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*
 - (ii) *an exercise of authority under that approved legislation, regulations or by-laws has occurred. In essence, a decision has been made by the transferring government under the approved legislation, regulations or by-laws that clearly demonstrates that it has lost its discretion to avoid proceeding with the transfer.*
 - (b) *There is evidence that both of the following have occurred:*
 - (i) *actions and communications of the transferring government by the financial statement date clearly demonstrate that it has lost its discretion to avoid proceeding with a transfer and thus the government is demonstrably committed to approving the enabling legislation, regulations or by-laws for the transfer and providing the transfer; and*

(ii) *final approval in the **stub period** of the enabling legislation, regulations or by-laws confirms that the transferring government was demonstrably committed to approving and providing the transfer at the financial statement date.*

- .29 The majority of government transfers will be authorized by the financial statement date as described in paragraph PS 3410.28(a). In rare cases, authorization as described in paragraph PS 3410.28(a) 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. 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 3410.28(b)(i).
- .30 A government would refer to the guidance in LIABILITIES, paragraphs PS 3200.07-.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 3410.28. 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 settle 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 ► *For a recipient government, a government transfer is authorized for the purposes of this Section when the transfer is authorized by the transferring government as described in paragraph PS 3410.28(a).*
- .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 authorization of a transfer as described in paragraph PS 3410.28(a), together with the meeting of all 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 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 accounting period. Financial statements should disclose appropriate information about the nature and terms of liabilities arising from government transfers.*
- .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 operations 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.

TRANSITIONAL PROVISIONS

- .40 This Section applies to fiscal periods beginning on or after April 1, 2012. Earlier adoption is encouraged.

GLOSSARY

Eligibility criteria are terms imposed by a transferring government that specify who qualifies to receive a transfer and/or the actions necessary to qualify for a transfer. The nature and substance of eligibility criteria is such that they must be met before a transfer is provided. They are pre-conditions that must be satisfied in advance in order for a recipient to qualify for a transfer. (Contrast with stipulations.) Eligibility criteria may include the following:

- (a) 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.
- (b) 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.
- (c) 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.

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 or the actions a recipient must perform in order to keep a transfer. Stipulations must be met by recipients who have already qualified to receive (by meeting eligibility criteria), or have received, a transfer. The nature and substance of stipulations is such that they are met after a transfer is provided. They are often terms that need to be satisfied through direct application of the transfer. (Contrast with eligibility criteria.) Stipulations may include the following:

- (a) 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:
 - (i) use the resources to acquire or develop a capital asset.
 - (ii) use the resources to carry out a particular activity.
 - (iii) use the resources for relocation to a specified region or for hiring a specified number of new employees.

- (b) Stipulations set out by the transferring government that specify when transferred resources must be used (i.e., time stipulations). Examples include:
 - (i) a particular period of use;
 - (ii) the date when use is first permitted;
 - (iii) the start and end date of the period within which the transferred funds must be used; and
 - (iv) a pattern of use for the transferred funds in specified annual periods of time.

- (c) 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). 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.⁸

⁸ The date of completion of the financial statements to be used in this Section is consistent with that required in SUBSEQUENT EVENTS, Section PS 2400.

APPENDIX A

APPLYING THE RECOGNITION CRITERIA

Entitlements

- A1 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 eligibility criteria.
- A2 There are two types of entitlements — those of individuals and those of other governments or institutions.

Entitlements of individuals

- A3 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.
- A4 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.
- A5 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.
- A6 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

- A7 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.
- A8 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

- A9 Transfers under 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) pursuant to an agreement between the transferring government and the recipient. In contrast, transfers under financing arrangements involve a government transferring resources up front to a recipient to provide the recipient with the financing to be able to incur eligible expenditures (i.e., the eligible expenditures do not have to be incurred in advance in order to qualify for the transfer). Regardless of whether a transfer agreement is described as a “shared cost agreement”, if eligible expenditures are to be incurred or are incurred after the receipt of the transfer from the transferor, for the purposes of this Section the transfer agreement is a “financing arrangement”. Some transfer agreements might provide some financing in advance of the recipient incurring eligible expenditures and subsequently provide additional transfers in response to claims from recipients for eligible expenditures incurred. In such cases, the advance financing would be accounted for as set out in paragraph PS 3410.A13. The reimbursement of eligible expenditures would be accounted for as set out in paragraph PS 3410.A12.
- A10 Transfers under shared cost agreements are similar to entitlements because the recipient is “entitled” to the transfer after it has incurred eligible expenditures. Shared cost agreements are different from other entitlements, however, because the recipient must first spend money in order 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 strategy 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.

- A11 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.
- A12 As long as it is authorized as described in paragraph PS 3410.28, 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 after it has incurred eligible expenditures under the agreement and the transfer is authorized as described in paragraph PS 3410.33.
- A13 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. If a transfer under an arrangement that is called a “shared cost agreement” is flowed before the recipient incurs eligible expenditures, the transfer is not in substance a shared cost agreement for the purposes of this Section. In substance, it is more in the nature of a financing arrangement and this classification may affect the timing of its recognition. The requirements to incur eligible expenditures are in essence stipulations to be met by the recipient after the transfer has been provided. 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). In such cases, the requirements to incur eligible expenditures are transfer stipulations, and would be considered as such in determining the appropriate timing of recognition of the transfer in revenue by a recipient government in accordance with paragraphs PS 3410.16-.27. 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 all other transfer terms that do meet the definition of eligibility criteria have been met.

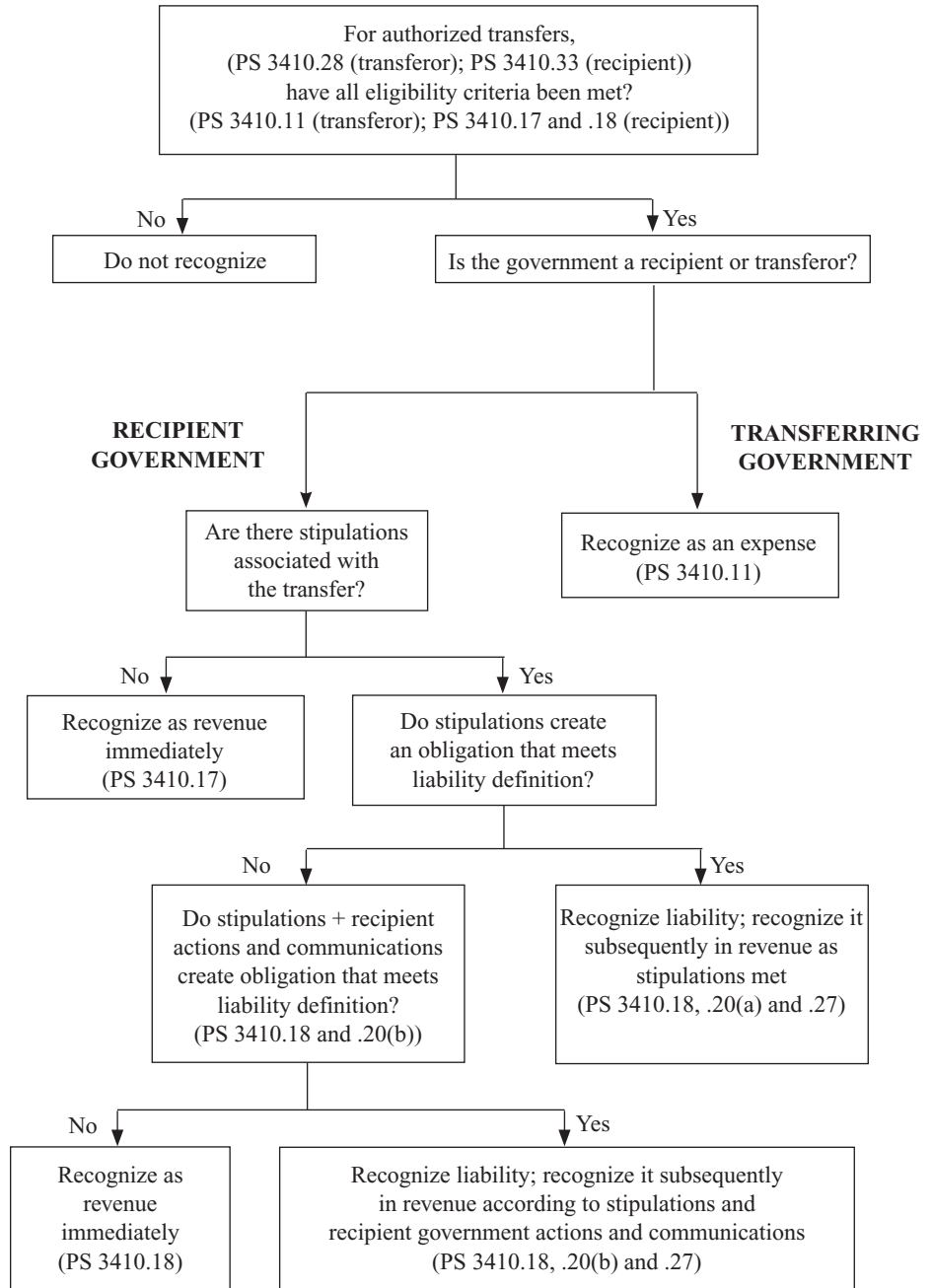
Other transfers

- A14 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.
- A15 Because transfers are discretionary, the government cannot be obligated to provide a transfer until the transfer 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 all eligibility criteria have been met.
- A16 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 3410.28, whether eligibility criteria have been met and the definition of a liability in LIABILITIES, Section PS 3200.

APPENDIX B

DECISION TREE — TRANSFERRING AND RECIPIENT GOVERNMENT RECOGNITION

The following decision tree has been prepared to illustrate the transferring and recipient government accounting set out in Section PS 3410. The decision tree is illustrative only and matters of principle relating to particular situations should be decided in the context of the Section.



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 establishes standards on how to account for and report restricted assets and revenues in government financial statements. The standards do 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.¹ Government transfers are addressed in GOVERNMENT TRANSFERS, Section PS 3410.

¹ The transitional provisions relating to this scope restriction are set out in GOVERNMENT TRANSFERS, paragraph PS 3410.40.