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Financial Reporting Requirements and Accounting Policies for Revolving Funds

Objective

The objective is to outline financial reporting requirements for revolving funds.

Authority

The Financial Administration Act, 1993, clauses 5(a), 5(e), subsection 10(2) and sections 22 and 28

Treasury Board Policy

- .01 The Provincial Comptroller may issue, amend and rescind directives for revolving funds regarding:
- financial management and control;
 - reporting;
 - accounting policies and systems; and
 - any other matters required for the effective administration of this policy.
- .02 On terminations of a revolving fund, the accumulated surplus/deficit amount will generally be closed out to the remaining accumulated net expenditure of the fund. In specific cases, Treasury Board may direct the responsible ministries to replenish any deficit to the General Revenue Fund (GRF).

Provincial Comptroller Directives

Accounting

- .03 Revolving funds are financed through an accumulated net expenditure limit with the GRF. The accumulated net expenditure of the revolving fund is accounted for as a non-financial asset/(liability) in the GRF.
- .04 The annual net expense/(recovery) of the revolving fund is consolidated and included in the surplus or deficit of the Summary Financial Statements.

Accounting Systems

- .05 The accounting system must, at minimum, meet the information requirements of revolving fund and ministry managers, central agencies, Treasury Board and the Legislature. It must provide relevant and timely information for decision-making, monitoring financial performance and stewardship, budget preparation and monitoring budget compliance, cost accumulation and establishing pricing policies and complying with financial reporting requirements.

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.06 The accounting systems must properly interface with the Government’s central financial system to ensure payments do not exceed accumulated net expenditure limits and to ensure that the accumulated net expenditure of the revolving fund is accurately recorded as a financial asset in the GRF.

Financial Statements

.07 The financial reporting period for revolving funds is from April 1 to March 31.

.08 Detailed payee listings are to be prepared in accordance with requirements in [Section 2010 Reporting Payee Details in the Public Accounts](#).

Audit

.09 The year-end financial statements are subject to audit by the Provincial Auditor unless otherwise prescribed by the Lieutenant Governor in Council.

Financial Statement Format Approval

.10 The format of the financial statements is approved by the Provincial Comptroller on behalf of Treasury Board.

Accounting Principles

.11 Revolving fund financial statements are to adhere to generally accepted accounting principles.

Accrual Accounting

.12 Revolving funds are to operate on or near a break-even basis. The accrual basis of accounting provides the most relevant basis for cost accumulation and establishing appropriate cost recovery rates (prices).

Revenues

.13 In order to break even, revolving funds must set prices (recovery rates) to recover each major component associated with operating the program or programs (refer to requirement in [Section 3210.04 Budget and Control of Revolving Funds](#)).

Surcharges

.14 Recovery of costs not charged to the revolving fund is done through the levy of an additional surcharge to non-government users. Refer to [Section 3210.07 and .08 Budget and Control of Revolving Funds](#) for Treasury Board policy on surcharges. Refer to Section 3215.18 for further information on costs that may not be paid by revolving funds.

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- .15 If Treasury Board directs the application of a surcharge, it should be accounted for separately from the recovery rates that have been set to recover revolving fund expenses only. The surcharges must be deposited into the GRF. For purposes of these surcharges, interest revenue on third party loans and investments and any gain on the disposal of capital assets are not considered as a surcharge returnable to the GRF.

Subsidies from the GRF

- .16 Refer to [Section 3210.04 to .06 Budget and Control of Revolving Funds](#) for Treasury Board policy regarding subsidization from the responsible ministry appropriation. A subsidy from the GRF should be recorded by the revolving fund as non-operating income.

Expenses

- .17 Authorized activities and expenses of a revolving fund are dependent on the fund's specific legislation.

Costs Not Paid by Revolving Funds

- .18 All direct and indirect costs associated with the operation of the fund should be charged to the revolving fund. Certain costs absorbed by other ministerial appropriations are not charged to revolving funds when it is not possible to do so. These costs are as follows:

- financing for capital expenditures, working capital and temporary operating deficits;
- occupancy, including rent, utilities, janitorial services, furnishings and leasehold improvements;
- employee fringe benefits;
- accounting and financial services;
- mail and purchasing;
- auditing;
- personnel services;
- overhead costs which are not significant; and
- administrative salaries of ministerial personnel not solely involved in the operation of the revolving fund.

- .19 **Capital Expenditures**

Where a revolving fund relies on a ministry for the use of capital assets, any recovery of amortization costs related to these assets should be accounted for according to Sections 3210.07 and .08 Budget and Control of Revolving Funds.

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Specific Accounting Policies

- .20 Refer to the [Accounting Manual](#) for accounting policies and procedures.
- Acquisition of Capital Assets, Materials and Supplies**
- .21 The provisions of *The Purchasing Act, 2004* apply to purchases made by revolving funds except for assets transferred from other revolving funds, or government ministries, agencies or Crown corporations, as a result of government reorganization.
- Doubtful Accounts**
- .22 A list of doubtful accounts must be prepared at the end of each fiscal year. The list is to include accounts receivable, loans and advances. The allowance for doubtful accounts is adjusted to agree to the listing. The increase or decrease in the allowance account is charged or credited to operations as bad debts expense.
- Revolving Fund Lending or Investing Activity**
- .23 Where a revolving fund's legislation allows for the fund to operate lending or investing activities, maximum spending limits are set for this activity. It is necessary for this type of activity to be clearly identified by the revolving fund. It is the responsibility of the revolving fund to provide the Provincial Comptroller's Office with the "split" between receipts and disbursements for its lending and investing and for its other operations, as separate maximum accumulated net expenditure limits are set for each. As a result, separate votes are established for lending and investing transactions to facilitate segregation and disclosure for the Estimates and Public Accounts.
- .24 Disbursements or receipts relating to loans to, or investments in, another party with repayment terms of greater than one fiscal year are shown as lending and investing activities of the responsible ministry in the Estimates and as GRF assets.
- .25 When it becomes apparent that a particular loan or investment is uncollectible, refer to accounts receivable write-off procedures in [Section 3725 Write-off or Cancellation of Accounts Receivable](#).

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Accumulated Net Expenditure

.26 The accumulated net expenditure (ANE) is shown as a liability in the revolving fund’s balance sheet as a component of non-current liabilities.

Accumulated Surplus/Deficit

Year-end Accounting .27 At year-end, the net operating surplus or deficit of the revolving fund, inclusive of subsidies and net of surcharges returnable to the GRF, is closed to an accumulated surplus/deficit account.

Repayment of Surplus to the GRF

.28 The repayment of an excess surplus to the GRF is recorded as a capital transaction in the revolving fund financial statements after the surplus/deficit and not included as an expense.

Recovery of Deficit from the GRF

.29 The recovery of a deficit from the GRF is recorded as an income item in the revolving fund.

Reconciliation to Amounts Reported in Public Accounts

.30 A reconciliation of the ANE reported per the revolving fund financial statements to the ANE recorded in the Government’s central financial system is to be completed regularly. In the unlikely event that the ANE balances in the financial statements and central financial system do not agree a reconciliation is to be included as a note to the financial statements. The reconciliation is needed to ensure:

- revolving fund transactions are completely and accurately recorded in the Government’s central financial system;
- there is timely detection and correction of errors; and
- there is compliance with spending limits.

Termination of a Revolving Fund

.31 Once Treasury Board approval is received, the revolving fund discontinues operations and fund assets are disposed of by sale, transfer or write-off. The liabilities are discharged prior to termination. Gains or losses on disposal are charged to current year operations. Financial statements for the fiscal period to the date of termination are prepared for inclusion in the Financial Statements Compendium. Revenue and expense accounts should be closed out to the surplus/deficit account for the current year and the resulting surplus or deficit at termination should be closed out to the accumulated surplus/deficit. The

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accumulated surplus/deficit account will generally be closed out to the remaining accumulated net expenditure of the fund; however, Treasury Board, at its discretion, may direct the responsible ministry to replenish a deficit.

References

[3200 Establishment and Control of Revolving Funds](#)

[3205 Approval of Revolving Funds](#)

[3210 Budget and Control of Revolving Funds](#)

[Accounting Manual](#)

[Accounting Manual, Appendix A General Revenue Fund Year-end Procedures and Schedules](#)

[Accounting Manual, Appendix B General Revenue Fund Quarter-end Procedures](#)