3200 Government Transfers

A. Overview

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:

- receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;
- expect to be repaid in the future, as would be expected in a loan; or
- expect a direct financial return, as would be expected in an investment.

Government transfers are the most significant expense of the General Revenue Fund (GRF) and, given their non-exchange nature, determining when it is appropriate to record a transfer expense or transfer revenue can be complex.

B. Accountability

Ministries are responsible for maintaining source documents, working papers and files supporting transfers revenue and expenses for internal and external audit and review.

Ministries are required to:

- establish and maintain accounting systems to collect, record and report information for government transfers;
- establish and maintain adequate internal control systems to ensure the accuracy and reliability of transfer revenue and expense information and reports;
- record transfers transactions promptly and accurately; and
- ensure that the payment of transfers is appropriately authorized and a proper charge against an appropriation.

Ministries are responsible for ensuring transfers payments are in accordance with the provisions of relevant legislation, related Orders in Council, agreements and other legal documents. Refer to FAM section 3101 GRF Payment Responsibilities for further guidance.

Ministries are responsible for establishing terms and conditions so as to be reasonably satisfied that transfers money are spent for authorized purposes. Refer to FAM section 4605 Control of Transfers.

Ministries are responsible for scheduling transfer payments in a manner that reflects the objectives of the transfer, the needs of the transfer recipient, as well as the requirement to effectively manage the Government's cash resources. Refer to FAM section 3142 Timing of Transfer Payments for further guidance.

B. Accountability *(continued)*

Ministries are responsible for documenting the accounting treatment rationale for each of their transfers. This documentation should clearly identify the point at which the transfers revenue or expense is recognized based on:

- authority
- the evidence of exercise of authority
- the evidence of recipients meeting any eligibility criteria; and
- for transfers revenue whether there are any stipulations that meet the definition of a liability.

Ministries should ensure that transfers agreements and other documents are clearly worded to assist in determining the appropriate accounting for transfers revenue or expenses and/or achieve the intended objectives of the transfers and the timing of recording revenue or expense. Refer to guidance in subsection C10. Drafting Transfers Agreements/Documents.

Ministries are not to make monetary contributions, except as transfers (grants) that have received Treasury Board approval. Refer to FAM section 4610 Contributions (Donations).

C. Procedures

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The government transfers accounting procedures are based on guidance outlined in the Public Sector Accounting Handbook section PS3410 Government Transfers. Refer to PS3410 Government Transfers for further guidance.

C. Procedures *(continued)*

The recognition criteria differ for transferring and recipient governments. Symmetrical accounting by the transferring and recipient governments is not required. When both the transferring government and the recipient government apply government transfers guidance to the same transfer, one government may recognize a transfer revenue or expense before the other government. The timing of transfer recognition by one government does not impact the timing of recognition by the other government.

Ministries should review the legislation, agreements and/or other documents for new or revised transfers programs and document the accounting treatment rationale for each transfer/transfer program. Professional judgment is required to apply the recognition criteria to the circumstances of a particular transfer. Refer to Appendix E - Government Transfers Application Guidance for guidance in assessing and documenting transfers accounting.

Capital transfers are to be recorded and reported separately from operating transfers. Capital transfers are those provided to a third party such as a school division, health authority, university or municipality to acquire or develop tangible capital assets.

A multi-year transfer agreement may result in a contractual obligation or right if the agreement includes clear requirements for future years' authorization and /or has eligibility criteria that will be met in future years. Refer to sections 4100 Contractual Obligations and 4110 Contractual Rights for guidance on identifying and disclosing contractual obligations and rights related to transfers agreements.

C1. Throughout the Year

Transfers Expense

Transfers expense should be recognized by a transferring government in the period that:

- the transfer is authorized; and
- all eligibility criteria, if any, have been met by the recipient.

Refer to subsections C4. Authorization and C5. Eligibility Criteria for further guidance.

There are three types of transfers: entitlements, shared cost arrangements and other transfers (grants). The other transfers are recognized based on the criteria identified above. Specific guidance for entitlements and shared cost arrangements is included in subsections C8. Entitlements and C9. Shared Cost Arrangements.

Refer also to Appendix E - Government Transfers Application Guidance for further guidance in assessing and documenting transfers accounting.

Transfers expenses are recorded in the 57xxxx account range throughout the year.

C. Procedures *(continued)*

C1. Throughout the Year *(continued)*

The processing of transfers expense invoices in MIDAS impacts the timing of the transfers expense. The timing of the expense is driven by the General Ledger (GL) Date, which is populated by the Goods and Services Received Date. For example, if the Goods and Services Received Date is entered as September 15, the GL Date will automatically be September 15 and the expense will be recorded in the September period.

Ministries can enter invoices in MIDAS to record transfers expense in one period but have payment dates in different periods. Invoices need to be entered for each future payment. The Goods and Services Received Date (and GL Date) should be entered for the period that the expense should be recorded. The future payment dates can be set in one of two ways:

- enter a Terms Date for the future payment dates; or
- change the payment dates for each invoice using the Scheduled Payments button (do not schedule more than one payment per invoice amount).

When the invoices are validated in the Accounts Payable Module and the MIDAS processing is complete, the General Ledger is updated and the transfers expense will be recorded in the period of the GL Date with the payments scheduled for future dates. Ministries can monitor outstanding invoice payments using an Invoice Register report.

As ministries begin each fiscal year with only 2/12th of their budget (interim supply), ministries may need to wait until after the budget is approved and fully accessible in MIDAS to record invoices for transfers expense in the current period for future transfers payments.

Example 1.1

On June 20, Ministry X authorizes a $100,000 operating transfer to an organization by obtaining an Order in Council and signing a transfers agreement. The transfers agreement does not outline any eligibility criteria but includes a payment schedule that requires the grant to be paid to the organization in quarterly instalments on June 30, September 30, December 31 and March 31. As the transfer is authorized and there are no eligibility criteria to be met, Ministry X records transfers expense of $100,000 in June. Ministry X enters and validates four invoices for $25,000 with a Goods and Services Received Date of June 20 for each and a Terms Date or payment date of June 30, September 30, December 31 and March 31.

Debit	570000 Transfers - Operating	25,000	
Credit	253000 Accounts Payable – from Accounts Payable		25,000

∗ invoice to record transfers expense (four invoices recorded as above)

C. Procedures *(continued)*

C1. Throughout the Year *(continued)*

Transfers Revenue

Transfers revenue should be recognized by a recipient government in the period that:

- the transfer is authorized; and
- all eligibility criteria, if any, have been met by the recipient; except
- when and to the extent that the transfer has stipulations that give rise to an obligation that meets the definition of a liability (section 2000 Liabilities) for the recipient government. Transfers meeting the definition of a liability are recognized as revenue as the liability is settled.

If there are stipulations that meet the definition of a liability, revenue is deferred and recognized as the related stipulations are met by the recipient. It would be rare that the existence of transfer stipulations would indicate that a liability is created and deferral of revenue can occur.

Refer to subsections C4. Authorization, C5. Eligibility Criteria, C6. Stipulations and C7. Liabilities Arising from Stipulations for further guidance.

There are three types of transfers: entitlements, shared cost arrangements and other transfers (grants). The other transfers are recognized based on the criteria identified above. Specific guidance for entitlements and shared cost arrangements is included in subsections C8. Entitlements and C9. Shared Cost Arrangements.

Refer also to Appendix E - Government Transfers Application Guidance for further guidance in assessing and documenting transfers accounting.

Transfers revenue from the federal government is reported separate from other transfers revenue in the account range 460xxx to 468xxx. Transfers from government entities other than the federal government are reported in the account range 47xxxx. Dividends received from government entities are recorded as transfers revenue.

C. Procedures *(continued)*

C1. Throughout the Year *(continued)*

Example 1.2

On May 1, Ministry X received $5 million in transfers funding from the federal government for infrastructure projects undertaken by the Ministry. The transfer was previously authorized and while the federal government is contributing to the costs of the infrastructure programs, the Ministry assesses that there are no eligibility criteria to be met. There are also no stipulations that would meet the definition of a liability. As the transfers revenue recognition criteria are met, the Ministry records transfers revenue when the funding is received (unless previously recorded as revenue and a receivable when the transfer was authorized by the federal government).

Debit	100000 General Revenue Fund Bank Account	5,000,000	
Credit	461000 Federal-Provincial Cost Sharing Programs		5,000,000

∗ journal entry to record the bank deposit and transfers revenue

C2. Quarter end

Transfers Expense

Quarter-end accruals are recorded for unpaid transfers expense in excess of $1 million per transfer program for:

- grants that have been fully authorized for recipients that have met eligibility criteria, if any, but remain unpaid at the end of the quarter (Subsection C1. Throughout the Year – Transfers Expense);
- unpaid entitlements at the end of a quarter where the legislation authorizing the entitlement is in force and the recipients have met eligibility criteria, if any (Subsection C8. Entitlements); and
- an estimate of eligible expenses incurred by recipients, but not yet paid at the end of the quarter (Subsection C9. Shared Cost Arrangements).

Ministries should use the quarterly accrual accounts (587560 Accrued Expenses – Capital Transfers or 587570 Accrued Expenses – Operating Transfers) to record transfers expense ***only*** when the transfers recipient is not known or significant estimation is required. Where the recipient is known, the transfer has been authorized and the eligibility criteria have been met, the transfer should ***not*** be recorded using the quarterly accrual accounts but should be recorded following the processes normally used to record transfers. Refer to the guidance in subsection C1. Throughout the Year for recording transfers expenses in MIDAS.

C. Procedures *(continued)*

C2. Quarter end *(continued)*

Transfers expense recorded using the quarterly accrual accounts are reversed in the following month. Refer to Appendix B – GRF Quarter-end Procedures for guidance on recording journal entries that reverse in the following month.

Example 2.1

On September 15, Ministry X signed an agreement to provide $2 million in capital transfers funding to an organization to construct a building. An Order in Council was obtained and the transfer is fully authorized upon signing the agreement. As per the agreement there are no eligibility criteria, however, there are stipulations that the funding must be used for costs to construct the building. The agreement outlines that a payment of $2 million will be made on October 31. The Ministry determines that a transfer expense of $2 million is required at quarter end (September 30) because the transfer is fully authorized and there are no eligibility criteria to be met. As the transfer recipient and amount of the transfer are known, the Ministry records the transfer through the normal processes with a Goods and Services Received Date of September 15 and payment date of October 31 (refer to subsection C1. Throughout the Year for guidance)

Debit	571500 Transfers - Capital	2,000,000	
Credit	253000 Accounts Payable – from Accounts Payable		2,000,000

∗ invoice to record transfers expense

Example 2.2

Ministry X provides transfer payments to individuals that meet low-income requirements set out in the regulations. At June 30, the Ministry estimates that $1.3 million in transfer payments (entitlements) are owing to recipients that have met the low-income eligibility criteria, however, the recipients and exact amount are not yet known. The ministry records a journal to record a quarter-end accrual for the estimated transfers expense.

Debit	587570 Accrued Expenses – Operating Transfers	1,300,000	
Credit	255005 Accrued Accounts Payable – General		1,300,000

∗ journal entry to record the quarter-end accrual which is reversed in July

C. Procedures *(continued)*

C2. Quarter end *(continued)*

Transfers Revenue

Quarter-end accruals are recorded for transfers revenue not yet received in excess of $1 million per revenue stream for:

- grants not yet received that have been fully authorized by the federal government and eligibility criteria, if any, have been met by the ministry, unless there are stipulations that create a liability (Subsection C1. Throughout the Year – Transfers Revenue);
- federal entitlements not yet received when the authorizing legislation is in force and eligibility criteria have been met (Subsection C8. Entitlements); and
- for the amount of eligible expenses (or portion thereof) that are reimbursable from the federal government, but have not yet been received (Subsection C9. Shared Cost Arrangements).

Ministries should use the following quarterly accrual accounts to accrue transfers revenue at quarter end which are reversed in the following month:
498140 Accrued Revenue – Transfers from Other Government Entities
498141 Accrued Revenue – Transfers from Liquor and Gaming Authority
498180 Accrued Revenue – Transfers from the Federal Government

Refer to Appendix B – GRF Quarter-end Procedures for guidance on recording journal entries that reverse in the following month.

Example 2.3

On December 10, Ministry X signed an agreement with the Federal Government to receive $20 million in capital transfers funding for provincial infrastructure projects. The transfer is fully authorized by the Federal Government on December 10. As per the agreement there are no eligibility criteria, however, there are stipulations that the funding must be used for the provincial infrastructure projects. The stipulations do not meet the definition of a liability. The agreement outlines that $10 million payments will be made on January 15 and February 15. The Ministry determines that transfers revenue of $20 million should be recorded at quarter end (December 31) because the transfer is fully authorized and there are no eligibility criteria to be met.

Debit	107600 Accrued Accounts Receivable - General	20,000,000	
Credit	498180 Accrued Revenue – Transfers from the Federal Government		20,000,000

∗ journal to record quarter-end accrual which is reversed in January

C. Procedures *(continued)*

C3. Year end

Transfers Expense

Ministries should accrue transfers expense for:

- grants that have been fully authorized for recipients that have met eligibility criteria, if any, but remain unpaid at the end of the year (Subsection C1. Throughout the Year – Transfers Expense);
- unpaid entitlements at the end of the year where the legislation authorizing the entitlement is in force and the recipients have met eligibility criteria, if any (Subsection C8. Entitlements); and
- an estimate of eligible expenses incurred by recipients, but not yet paid at the end of the year (Subsection C9. Shared Cost Arrangements).

Example 3.1

On February 5, Ministry X signs a cost-shared agreement with a government organization to share 50 percent of the costs to construct a building. An Order in Council was obtained and the transfer is fully authorized upon signing the agreement. As per the agreement, the organization is eligible for the transfer as the organization incurs eligible costs to a maximum of $10 million. The agreement outlines that payments will be made to the organization on a quarterly basis based on eligible costs incurred at each quarter end. The organization is required to submit documentation to the Ministry on the eligible costs incurred within 10 business days of each quarter end. The organization provides documentation to the Ministry on April 13 that $860,000 in eligible costs were incurred as at March 31. The Ministry records a transfer expense as at March 31 for 50 per cent of the eligible costs incurred.

Debit	571500 Transfers - Capital	430,000	
Credit	253000 Accounts Payable – from Accounts Payable		430,000

∗ invoice to record transfers expense

Transfers Revenue

Ministries should accrue transfers revenue for:

- grants not yet received that have been fully authorized by the federal government and eligibility criteria, if any, have been met by the ministry, unless there are stipulations that create a liability (Subsection C1. Throughout the Year – Transfers Revenue);
- federal entitlements not yet received when the authorizing legislation is in force and eligibility criteria have been met (Subsection C8. Entitlements); and

C. Procedures *(continued)*

C3. Year end *(continued)*

- for the amount of eligible expenses (or portion thereof) that are reimbursable from the federal government, but have not yet been received (Subsection C9. Shared Cost Arrangements).

An accrual is not recorded where an amount cannot be determined with a reasonable degree of certainty or where estimation is not practicable.

Example 3.2

On January 15, Ministry X signs a cost-shared agreement with the Federal Government to be reimbursed for 50 percent of the costs to construct a bridge. The transfer is fully authorized by the Federal Government on January 15. As per the agreement, Ministry X is eligible for the transfer as eligible costs are incurred to a maximum of $25 million. There are also no stipulations that would meet the definition of a liability. The agreement outlines that payments will be made to the Ministry on a quarterly basis based on eligible costs incurred at each quarter end. Ministry X is required to submit documentation to the Federal Government on the eligible costs incurred within 10 business days of each quarter end. Ministry X provides documentation to the Federal Government on April 10 that $3,500,000 in eligible costs were incurred as at March 31. The Ministry determines that transfers revenue of $1.75 million should be recorded at March 31 because the transfer is fully authorized and the eligibility criteria have been met.

Debit	107600 Accrued Accounts Receivable - General	1,750,000	
Credit	461000 Federal-Provincial Cost Sharing Programs		1,750,000

∗ journal entry to record the accrual at March 31

C4. Authorization

Authorization requires two actions by the transferring government; first, the enabling authority must be in place by the financial statement date and second, the transferring government must exercise the authority provided it by that enabling authority.

Legislation provides the government with the ability to make a transfer (i.e., its legal or enabling authority), and any regulations, signed agreements or other official documents that are entered into under that legislation are critical to determining the timing of expense. Since for government transfers there is no exchange of goods or services to identify when an amount is due (i.e., when the transferor owes economic resources to a recipient) an assessment of the legislation, legal documents and any relevant supporting papers is required in order to determine the appropriate timing for recording a transfer.

C. Procedures *(continued)*

C4. Authorization *(continued)*

Often, the legal authority only enables the government to provide the grant, and at some point a decision is made and an action is taken that means the government has given up its discretion to make the transfer. This decision and subsequent action is the exercise of authority – that is, the second level of authorization.

Exercising its authority leaves a government with little or no discretion to avoid making the transfer. Some transfer agreements may have a number of approval points at different stages of the process; an assessment is required to determine at which of these points the government no longer has discretion.

An Order in Council (OC) is often part of the process for providing a transfer. The OC might form part of the legal authority, or in some cases could be part of the actions taken by the government to exercise its authority. It is important to look at the OC and other approvals in the context of the whole transfer process to determine when the government has lost its discretion.

Evidence of exercising authority may take several forms. In many cases, the signature of an individual with the delegated authority to provide that approval will be evidence that the government has exercised its authority. For example, the signature on a transfer approval form of the Deputy Minister or a Program Manager who has the delegated signing authority would be evidence of the exercise of authority.

In some cases, the signing of a contract or agreement will be the final authorization required, because recipients are then qualified to receive the transfer (or will be qualified when they meet any eligibility criteria embodied in the agreement). The government has lost its discretion to provide the transfer when the agreement is signed.

Direction from Cabinet or Treasury Board would not indicate loss of discretion. Until an agreement is signed or the delegated authority has provided approval, the government still retains discretion over the transfer. In many cases the government will communicate its intention to provide a transfer. Communications in the form of a public news release or political announcement would not usually provide evidence that a government has lost its discretion. However, other more direct forms of communication (e.g., letter to the recipient) may need to be considered to determine whether the government retains discretion over the transfer.

Determining the point at which government has little or no discretion is not based upon political pressures or moral expectations. While it may be true that a government cannot avoid making certain transfers without serious political repercussions (e.g., in grants for health or education), transfers are accounted for based on the content and structure of the specific

C. Procedures *(continued)*

C4. Authorization *(continued)*

arrangement and the transfers guidance. The public or political importance of a transfer does not impact the timing of expense recognition.

The wording in legislation, agreements and other signed documents need to be considered in determining at what point discretion is lost. If the wording is ‘the Minister may provide a transfer’, another authorization step is required. If the wording is ‘the Minister shall provide a transfer’, the government has lost discretion and no further steps are required for authorization.

While the government may retain discretion on the timing of the transfer ***payments***, the government has lost discretion on providing a transfer and recording expense once the transfer is authorized and eligibility criteria are met by the recipient.

Certain transfers may be authorized at the same time that a payment for a transfer is approved. However, it is authorization of the transfer that results in recording a transfers expense and not the payment.

Budgetary Authority

The authority to pay (or budgetary authority) may be part of the authorization process. Budgetary authority is evidenced by the existence of a suitable and sufficient appropriation. An appropriation qualifies as suitable if the wording of the Budget Estimates is sufficiently broad to encompass the nature of the amount being charged to it.

A transferring government can have a liability even though there may not be sufficient appropriation (budget room) available. This situation may arise when a government loses its discretion to avoid proceeding with a transfer when a recipient meets the eligibility criteria.

Wording in transfers agreements may indicate that payments will be made “subject to appropriation.” This type of standard clause would not provide sufficient evidence that budgetary authority is part of the authorization process. From an accounting perspective, expenses will likely need to be recorded even though there is no appropriation available.

The term of some transfer agreements extends beyond one fiscal year (multi-year agreements). Budgetary authority, evidenced by the existence of a suitable and sufficient appropriation, may play a significant role in the authorization process in these types of agreements.

C. Procedures *(continued)*

C4. Authorization *(continued)*

Multi-year agreements may be written such that the Legislative Assembly's approval of a future year's budget comprises a part of the authorization process (e.g., where the agreement is no longer binding unless the Legislative Assembly approves the appropriation). The approval by the Legislature of future Appropriation Acts might, in such circumstances, act as the point where the government loses its discretion to avoid making the transfer in that future fiscal year.

It is important to remember that, "budgetary authority" is not the same thing as "budget room" meaning that, if discretion is lost, an expense must be recorded even when there is no budget available.

Demonstrable Commitment

Most transfers will be authorized by the financial statement date. In rare cases, authorization as discussed above may not be in place, but the transferring government may have a preponderance of evidence that it is demonstrably committed to both:

- approving legislation, regulations related to a transfer or transfer program; and
- proceeding with the transfer or transfer program,

such that recognition of a liability for the transfer can be justified on the basis that the government has lost its discretion to avoid the obligation for the transfer and that the obligation meets the definition of a liability. This situation is most likely to occur for new transfers or new or revised transfer programs occurring at or near the financial statement date. Final approval before the financial statements are completed (during the "stub period") is required to confirm that the government was demonstrably committed at the financial statement date. This type of authorization applies to a transferring government – it does not impact revenue recognition by a recipient.

If it is determined that there is enough evidence to conclude the transferring government has lost its discretion and is demonstrably committed to providing authorization, the authorization criteria has been met for the transferring government at the financial statement date. A transfers expense would be accrued in the financial statements to the extent that eligibility criteria are met by the recipient.

Guidance in section 2000 Liabilities and PS 3410 Government Transfers would be used to determine whether a government is demonstrably committed to providing a transfer.

Demonstrable commitment does not apply to the recipient government. This means that the recipient government would not record the transfer until the transfer is fully authorized.

C. Procedures *(continued)*

C5. Eligibility Criteria

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 the 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.

Most transfer programs include conditions or terms that must be met by the recipient. All transfer terms that must be met by the recipient are classified as either eligibility criteria or stipulations. The crucial characteristic that distinguishes eligibility criteria from stipulations is the timing that the condition is met by the recipient. A recipient must meet eligibility criteria before it qualifies for the transfer.

If a transfer payment is made before the recipient meets eligibility criteria, an expense is always recorded by the transferring government. A transferring government would never record a prepaid transfer. When a government provides a transfer before the recipient becomes eligible, that government has made a decision to change the terms of the transfer. In this situation, the unmet eligibility criteria become stipulations of the transfer. Refer to subsection C6. Stipulations for further guidance.

Transfer agreements will often contain a payment schedule. Payment schedules do not impact the timing of expense recognition by the transferring government. When the transfer has been authorized and the recipient has met eligibility criteria the full amount of the transfer must be recorded as an expense, regardless of when the payments will be made.

For the recipient government, a transfer with eligibility criteria is recognized as revenue when the transfer is authorized and all eligibility criteria have been met unless there are stipulations that create a liability.

Eligibility criteria are not always clearly identified in agreements or other documents for transfer programs. Sometimes it is difficult to differentiate transfer terms between eligibility criteria and stipulations. In these instances, it is important that ministries clearly identify their assessment of the eligibility criteria for those programs in their transfers documentation.

C6. Stipulations

Stipulations are transfer terms that must be performed to keep a transfer; stipulations differ from eligibility criteria, which are met in order to get a transfer. Stipulations only impact revenue recognition in rare circumstances.

C. Procedures *(continued)*

C6. Stipulations *(continued)*

The key to determining whether a transfer term is an eligibility criterion or a stipulation is the timing of when the condition is met; if a condition does not need to be met until after the recipient qualifies and/or receives for the transfer, that condition is a stipulation.

Stipulations might set out the purpose for which transferred resources must be used, for example:

- to acquire or develop a tangible capital asset;
- to carry out a specific activity, like provide childcare services; or,
- to achieve a specific goal, like hiring a specified number of new employees.

Or, stipulations might specify when resources must be used, for example:

- in a specific fiscal year (i.e., a particular period of use); or,
- through a specified number of fiscal years (i.e., a particular pattern of use).

As noted in subsection C5. Eligibility Criteria, eligibility criteria become stipulations if the transferring government decides to make the transfer (i.e., pay the cash) before those eligibility criteria are met. Even though the transfer was provided, the terms must still be met, and are assessed as stipulations.

Refer to guidance in subsection C7. Liability Arising from Stipulations for further guidance in assessing the recognition of transfers revenue by recipient governments.

C7. Liability Arising From Stipulations

Assessing whether a liability arises from stipulations only impacts the recognition of transfers revenue for recipient governments and not the recognition of transfers expense by transferring governments.

It would be rare that the existence of transfer stipulations would indicate that a liability is created and deferral of revenue by the recipient government can occur. The stipulations must be assessed in conjunction with the recipient government's actions and communications to determine whether an obligation that meets the definition of a liability has been created.

For a recipient government to have lost its discretion when it receives a transfer, the stipulations would be strong enough and specific enough to limit the recipient's ability to make individual choices, judgments or decisions related to the use of the funds. Funding provided for general purposes (e.g., "employee recruitment" or "medical equipment" or "operating") would not meet the liability requirement.

C. Procedures *(continued)*

C7. Liability Arising From Stipulations *(continued)*

It would be difficult for stipulations alone to establish a liability without action on the part of the recipient. Actions by a recipient are likely needed to satisfy two of the characteristics of a liability:

- an expectation that economic benefits will be sacrificed, the process of fulfilling the stipulations would need to be far enough along to ensure that the recipient has an obligation to a third party; and,
- the past transaction or event requirement must be related to the future use of the transferred resources; that is, having entered into the agreement cannot be enough to meet this characteristic.

To have a liability when a transfer is received, the stipulations in the transfer agreement and the actions undertaken by the recipient government will have established a situation where a past transaction or event has made it so that the government has no discretion but to make a payment or provide a service to a third party.

It is likely that the only situations where stipulations and recipient government actions could create a liability would be in cost-sharing agreements where the cash is provided prior to the recipient incurring eligible costs. In this case, the eligible cost become stipulations.

For example, under a cost-sharing arrangement for a capital construction project, the transfer is paid in full before construction is underway; that is, the recipient has not yet incurred a corresponding amount of eligible expenditures. It might be appropriate to record a liability for the amount of the excess for example when:

- strong enough stipulations in the transfer agreement that make it clear that the funds are only for eligible costs; and,
- the recipient government has an existing construction contract with a third party to incur the expenditures.

Subsequent Transfers

In situations where federal transfer funding to the Province will be used to provide a subsequent transfer to a final recipient, the Province would need to consider whether there is a direct link between the federal funding and the subsequent transfer in assessing whether the Province should record a liability. For a liability to be recorded, the recipient government needs to have authorized the transfer to the final recipient and eligibility criteria need to have been met by the recipient.

C. Procedures *(continued)*

C7. Liability Arising From Stipulations *(continued)*

Unspent Funds

Agreements may specify that the recipient is required to refund unspent transfers to the transferring government. This refund is a separate event from the initial receipt of the government transfer. Terms such as this usually indicate a time period in which the transfer is to be used or indicate a specific event before which the transfer is to be used; if there are remaining unused amounts at the end of the specified period, those amounts are to be returned to the transferring government.

Determining whether a liability should be recorded in these cases cannot be made until the specified time period has passed and there is an ability to assess whether the funds have been used. Until that time has passed, the recipient likely has no liability related to the refund.

C8. Entitlements

Entitlements are transfers for which both the recipient and the amount of the transfer is established in legislation or regulations. For entitlements, no exercise of authority is required on an ongoing basis; the legislation provides for both stages of the authorization process. The recipient may be required to meet certain criteria to become eligible for the transfer, but as soon as those eligibility criteria are met, the government has no choice but to provide the transfer.

Examples of revenue transfer entitlements are the Canada Health Transfer and Canada Social Transfer from the federal government to provinces. An example of an expense transfer entitlement is Saskatchewan social assistance. An individual that meets the low-income requirements set out in the regulations is entitled to receive the monthly amount set out in the regulations.

An entitlement should be recognized as revenue or expense in the period that the recipient meets eligibility criteria, as long as the legislation or agreement authorizing the transfer is in force.

3200 Government Transfers

C. Procedures *(continued)*

C8. Entitlements *(continued)*

Example 8.1

On February 1, Ministry X received $36.8 million in transfers funding from the federal government under the Canada Social Transfer program. The Ministry records the transfer revenue when they meet the eligibility criteria.

Debit	100000 General Revenue Fund Bank Account	36,800,000	
Credit	460600 Canada Social Transfer		36,800,000

∗ journal entry to record the bank deposit and transfers revenue

C9. Shared Cost Arrangements

Shared cost arrangements are usually embodied in agreements between two parties that require the government to reimburse an individual or organization for eligible expenses incurred related to a project.

There are two types of shared cost agreements, reimbursements of eligible costs incurred and financing arrangements. Both types of shared cost agreements have built-in eligibility criteria; that is, recipients must incur eligible costs to qualify for the transfer. However, in financing arrangements, payment is usually made ahead of the recipient incurring eligible costs. When that is the case, the transferring government has decided to treat eligible costs as stipulations in the agreement. This means that no prepaid asset is recorded; if the government transfer is paid, an expense is recognized by the transferring government and a revenue is recorded by the recipient government.

For reimbursement arrangements, a revenue or expense is recorded in the period that the recipient incurs eligible expenses. In some cases, recipients may be required to present proof of eligible expenses prior to receiving the reimbursement. However, this requirement is often a stipulation that would impact the timing of the cash payment but would not delay the recording of the expense as the government has lost its discretion once the recipient has incurred eligible costs.

For financing shared cost agreements, a revenue or expense is recorded for any payments made in advance of the recipient incurring eligible costs.

C. Procedures *(continued)*

C9. Shared Cost Arrangements *(continued)*

Example 9.1

On April 15 Ministry X signs a cost-shared agreement with a government organization to share 50 percent of the costs to construct a building, expected total cost to be $20 million. An Order in Council was obtained and the transfer is fully authorized upon signing the agreement. As per the agreement, the organization is eligible for the transfer as the organization incurs eligible costs to a maximum of $10 million. The agreement outlines that progress payments are to be made when the asset reaches 45% completion and upon substantial completion of the building.

June 30

At June 30 the building is 45% complete and government organization has incurred costs of $9 million. Ministry X makes the initial progress payment of $4.5 million payment on June 30 as per the agreement. The eligibility criteria have been met as eligible costs have been incurred and the Ministry records transfers expense for 50% of the eligible costs incurred.

June 30

Debit	571500 Transfers - Capital	4,500,000	
Credit	253000 Accounts Payable – from Accounts Payable		4,500,000

∗ invoice to initiate progress payment when building reaches 45% completion

September 30

At September 30 the government organization has incurred additional eligible expenses of $7 million and the building is 80% complete. No progress payment is due; however Ministry X accrues an additional transfer expense for 50 per cent of the eligible costs incurred in excess of the $4.5 million in payments to date ($16 million x 50 per cent = $8.0 million less $4.5 million paid to date = $3.5 million).

Debit	571500 Transfers - Capital	3,500,000	
Debit	255000 Accounts Payable – General		3,500,000

∗ journal entry to record transfers equal to the building addition on a percentage of completion basis

C. Procedures *(continued)*

C9. Shared Cost Arrangements *(continued)*

***Example 9.1** (continued)*

November1

At November 1 the building is substantially complete and the government organization has incurred additional eligible expenses of $4 million. Ministry X makes the final progress payment as per the agreement and records transfer expense of 50 per cent of the eligible costs incurred in excess of the $8.0 million recorded to date ($20 million x 50 per cent = $10.0 million less $8.0 million recorded to date = $2.0 million).

Debit	571500 Transfers - Capital	2,000,000	
Debit	255000 Accounts Payable – General	3,500,000	
Credit	253000 Accounts Payable – from Accounts Payable		5,500,000

* invoice to initiate final progress payment when building reaches substantial completion

C10. Drafting Transfers Agreements/Documents

Where possible, ministries should ensure that transfers agreements and/or other documents are clearly worded to assist in determining the appropriate accounting for transfers revenue or expenses.

Transfers agreements and/or other documents should cover the following:

- eligibility criteria, if any, to be met by the recipient to qualify for the transfer;
- the stipulations, if any, to be met by the recipient after being eligible for the transfer;
- the future years' authorization, if any, required for multi-year transfers;
- the manner in which the transfer is to be applied for;
- the type of information which is to be provided by the applicant;
- a provision to enable a representative of the Minister of Finance to examine the books and records of the applicant; and
- a provision for the disposition of any unused portion of a transfer by any government board, commission, agency or Crown corporation.

For multi-year agreements, a ministry may intend to give up its discretion and fully authorize the transfer in the first year or a ministry may choose to retain its discretion and incorporate further authorization steps over the term of the agreement. If a ministry chooses the latter, future year's authorization wording should be included in the agreement to allow the government to retain its discretion until some point in future years when the Legislative Assembly appropriates the transfer funds. With future year's authorization, the transfer is recognized in future fiscal years, rather than recognizing the full amount of the transfer in the first year.

C. Procedures *(continued)*

C10. Drafting Transfers Agreements/Documents *(continued)*

Within transfers agreements, eligibility criteria and stipulations should be clearly outlined and distinguishable so that the terms can be assessed or measured for purposes of determining when to record transfer revenue or expenses.

Any requirements included within a payment section of a transfers agreement would be payment requirements and not eligibility criteria, unless specifically referred to as such, and therefore, would not affect the recognition of transfers revenue or expense.

Refer to Appendix F - Template Transfers Agreement and Appendix G - Template Community Based Organizations (CBO) Transfers Agreement for template transfers agreements that can be used in drafting transfer agreements.

D. Definitions

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.

Entitlements are transfers that a government must make if the recipient meets specified eligibility criteria. These payments are non-discretionary as legislation or regulations prescribe "who" is eligible to receive the transfer and "how much" is transferred.

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:

- receive any goods or services directly in return, as would occur in a purchase/sale or other exchange transaction;
- expect to be repaid in the future, as would be expected in a loan; or
- expect a direct financial return, as would be expected in an investment.

Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.

Shared Cost Arrangement transfers are reimbursements and/or advance funding of eligible expenditures pursuant to an agreement between the transferring government and the recipient.

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 the transfer.

3200 Government Transfers

E. References

2000 Liabilities
4100 Contractual Obligations
4110 Contractual Rights
Appendix A - General Revenue Fund Year-end Procedures and Schedules
Appendix B - General Revenue Fund Quarter-end Procedures
Appendix E - Government Transfers Application Guidance
Appendix F - Template Transfers Agreement
Appendix G - Template Community Based Organizations (CBO) Transfers Agreement

Financial Administration Manual
3101 GRF Payment Responsibilities
3142 Timing of Transfer Payments
4605 Control of Transfers
4610 Contributions (Donations)

E. References *(continued)*

Public Sector Accounting Handbook
PS 3410 Government Transfers

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