Appendix E

Government Transfers Applications Guidance

Reviewing Transfer Documentation

Legislation, regulations, agreements and other documentation form the legal structure of a transfer and provide the tools in assessing timing of expense and revenue recognition. It is critical to thoroughly review all available documentation related to the transfer, however the following summaries may provide some assistance in making an assessment.

Transfer legislation/regulations may indicate the type of transfer and, consequently, impact the transfer accounting:

Definitions/"Interpretation" section

May define the recipients and in that definition, may establish eligibility criteria; that is, what a recipient has to be or has to do to get the transfer.

Authority to provide a transfer

There will be a section in the legislation/regulations that allows or requires the minister to provide the transfer. How that authority is worded will indicate different accounting treatments:

- "the minister may…" this type of legal authority allows the government to make a transfer; further authorization will be necessary for the government to have lost its discretion; and,
- "the minister shall…" this type of legal authority requires the government to make a transfer; in these cases the government's discretion has been limited; it is possible that additional authorization may be required, for example, when the amount of the transfer is decided; however, when the amount of the transfer is also specified in legislation/regulations the transfer is an entitlement.

Transfer details

Legislation/regulations that govern a specific transfer program will set out terms under which the transfer is being provided. These terms may specify eligibility criteria (terms which must be met before a recipient qualifies for the transfer). These will impact the accounting by both transferring government and recipient government. All other terms that a recipient must meet are stipulations, which may only impact the accounting treatment of the recipient.

Transfer agreements are commonly used for specifying details of transfer programs. These agreements are often structured in a similar manner.

Definition of terms provides specific meaning to words and phrases used in the agreement. Similar to legislation, eligibility criteria may be identified here.

Appendix E

Reviewing Transfer Documentation (*continued*)

Obligations of each party are set out

- transferring government's obligations usually identify the authorization process and whether any further approvals are required – these will impact timing of expense and revenue recognition.
- recipient government's obligations identify what the recipient must do; these obligations are eligibility criteria or stipulations, depending on when the action or obligation must be met; eligibility criteria (what a recipient has to be or has to do to get the transfer) will impact expense and revenue recognition, while stipulations (all other terms to be met by the recipient) only impact revenue recognition (and only in some cases).

Cash distribution details how payments will be made to the recipient; these terms may be contained in a separate section, or could be included in the transferring government's obligations. It is possible (common, even) for a transfers expense to be recognized before the cash is paid. The timing of cash payments will rarely impact the timing of transfer expense or revenue recognition (but remember – if the cash is paid – an expense must be recorded by the transferring government).

Financial reporting usually requires the recipient to provide updates to the transferring government during the term of the agreement. This form of accountability is a transfer stipulation, because it is a term to be met by the recipient subsequent to receiving the transfer. Stipulations never impact timing of expense recognition and this type of stipulation (an accountability measure) rarely (if ever) impacts the timing of revenue recognition.

However, in certain transfer agreements, reporting requirements will trigger a subsequent transfer. For example, a transfer agreement may specify that if evidence of meeting the original requirements is provided within a certain timeframe, an additional transfer will be provided. In this case, the reporting requirements would be stipulations for the first part of the transfer, but eligibility criteria for the second part. When reporting requirements are eligibility criteria, they impact expense and revenue recognition.

Termination of agreement is usually available to each party under specific circumstances. The requirement of a recipient to return unused funds to the transferor at the natural end of an agreement would not be accounted for until that time. Termination is an event separate from the original transfer.

Transferring Government

Assessing when an expense is recognized

A transfer is recognized as an expense when it is authorized and all eligibility criteria are met.

Appendix E

Transferring Government (*continued*)

Authorization

Questions to ask that may help identify the approval points for the transfer program:

- What legislation is applicable? What section provides the government the ability to make the transfer?
- Is the legislation in force? Are there any outstanding provisions?
- Are regulations required? Are they in force?
- Who in the government needs to okay the transfer?
  - Cabinet?
  - Minister?
  - Deputy Minister?
  - Delegated authority?
- Has an agreement with the recipient been reached? Is it documented? And signed?
- Are there different stages of approval set out in the process; e.g., program concept, program design, and/or program delivery. At which of these points does a government representative sign off? Is there a point in any of these processes where it is clear that the government can no longer avoid making the transfer?

Demonstrable commitment

If, at year end, the legislation that provides the government with legal authority to make a transfer is not yet in force, an assessment needs to be made as to whether the government has provided demonstrable commitment to authorizing the transfer.

- At year-end has the government taken steps to provide a transfer, for which there is not yet legislative authority?
- Has the legislation been introduced and received approvals at various stages?
- Are there decision-items (e.g., Treasury Board or Cabinet) showing that the government is moving forward with the program?
- Is there a plan in place to deliver the program or provide the funding?
- Does the recipient have a valid expectation that the transfer will be provided?
- Is the legislation in force before the financial statements are completed?

Eligibility Criteria

If there are requirements in the transfer that need to be met by the recipient, consider these questions to identify whether the requirements are eligibility criteria or stipulations:

- Are there specific characteristics identified that the recipient must have before qualifying to receive the transfer? For example:
  - have a certain amount of income; or,
  - be a specific organization or individual (e.g., municipality, recent immigrant to Saskatchewan, post-secondary student).

Transferring Government (*continued*)

Eligibility Criteria (*continued*)

- Are there things that an individual or organization must do before it would be considered a recipient? For example:
  - suffer a loss (e.g., flood damage);
  - incur eligible expenses (as in a cost-sharing arrangement);
  - provide a service to the public (e.g., a children's sports program); or,
  - apply to receive the grant.

Recipient Government

Assessing when revenue is recognized

A transfer is recognized as revenue when it is authorized and all eligibility criteria are met, unless the definition of a liability is met.

Authorization

Questions to ask that will help identify the approval points for the transfer program:

- What legislation is applicable? What section provides the transferring government (most often, the federal government) the ability to provide a transfer?
- Is the legislation in force? Are there any outstanding provisions?
- Are regulations required? In force?
- Who in the federal government needs to okay the transfer?
  - Cabinet?
  - Minister?
  - Deputy Minister?
  - Delegated authority?
- Is there an existing federal/provincial agreement?
- When does a government representative sign off and the transferring government can no longer avoid making the transfer?

Eligibility Criteria

If there are requirements in the transfer that need to be met by the recipient, consider these questions to identify whether the requirements are eligibility criteria:

- Are there specific characteristics identified that the recipient must have? For example:
  - have a certain amount of income; or,
  - be a specific organization or individual (e.g., municipality, recent immigrant to Saskatchewan, post-secondary student);

Recipient Government (*continued*)

Eligibility Criteria (*continued*)

- Are there things that an individual or organization must do before it would be considered a recipient? For example:
  - suffer a loss (e.g., flood damage);
  - incur eligible expenses (as in a cost-sharing arrangement);
  - provide a service to the public (e.g., a children's sports program); or,
  - apply to receive the grant.

Stipulations

If there are requirements in the transfer that need to be met by the recipient, after evaluating the eligibility criteria questions above, consider these questions to identify whether the requirements are stipulations:

- Are there any (additional) things that the recipient is required to do once the transfer is provided? For example:
  - Use the funds for a specific purpose:
    - make a subsequent transfer (e.g., to a municipality);
    - provide a service to the public (e.g., a children's sports program);
    - construct or purchase an asset (e.g., a highway or medical equipment); or,
    - conduct research on a particular topic (e.g., viability of organic farming or a medical procedure).
  - Make use of the funds in a specified time:
    - over a pattern of time (e.g., equally in each year over three years); or,
    - over a specified period (e.g., not before this date or fully used by this date).
  - Inform the transferring government on key issues:
    - updates on the use of funds;
    - any changes in key staff; or,
    - any significant findings.
  - Comply with the law;
  - Provide the transferring government with access to documentation; or,
  - Provide accountability reports.

Determining whether a liability exists

If it has been established that there are stipulations in the transfer, an assessment needs to be made as to whether the government has a liability (as defined in PS 3200). A liability has three characteristics: it is the result of a <u>past transaction or event</u> where the government expects to make a <u>sacrifice of economic benefits to others</u> and the government has <u>little to no discretion</u> to avoid settling the obligation.

Determining whether a recipient government has a liability in relation to a transfer would be influenced by:

(a) the transfer stipulations; or,

(b) those stipulations taken together with the actions and communications of the recipient government before the financial statement date.

Saskatchewan

Recipient Government (*continued*)

Stipulations (*continued*)

Do the stipulations create a liability for the recipient government?

It is unlikely that stipulations alone would create a liability.

Stipulations need to be sufficiently strong enough or specific enough to limit the recipient's ability to make independent decisions related to use of the funding. Unless the stipulations have some substance, no liability is met and revenue is recognized immediately. Consideration of the recipient's own actions in relation to fulfilling the stipulations must be given (PSAB says actions would be "*consistent with the substance and intent of the transfer stipulations*"), particularly in determining whether discretion is lost.

It may be appropriate for a recipient government to record a liability on the receipt of a transfer under a cost-sharing agreement. A liability may exist where a transfer is received by a recipient in advance of incurring an equivalent amount of eligible costs (as in a financing arrangement). The revenue would be recognized as the related costs are incurred.

Outside of cost-sharing arrangements, it is less likely that the form of a transfer would allow for the recording of a liability. However, for any type of transfer, if the liability definition is met, a liability would be recorded and revenue would be recognized as the stipulations are fulfilled.

In most situations, the stipulations of a transfer are unlikely to be so restrictive that the recipient no longer has discretion. Revenue from these transfers is immediately recognized.

Assessment forms

To assist in answering the question of when a transfer should be recorded as an expense or as revenue, templates have been provided that should be completed by all ministries for each transfer program in which it records a transfer expense or receives transfer revenue. The completed templates will form a summary of the accounting discussion and documentation required for each transfer program.

Appendix E

Transferring government assessment ***Determining when to record an expense***	
Transfer program/name	
Related documents	
▪ Legislation	▪ statute specific to the program; or ▪ ministry statute (where minister gets powers to act) combined with *The* Executive Government Administration Act (EGAA)
▪ Regulations	▪ regulations specific to the program ▪ may be enacted under specific legislation; or the EGAA
▪ Order in Council	▪ required if grant >$50k made pursuant to s. 16(3) of the EGAA; ▪ may be required pursuant to specific legislation
▪ Agreement	▪ entered into under the Authorizing legislation (above)
▪ Application form	▪ completed by recipient
▪ Transfer payment request form	▪ MIDAS form
▪ Communication to recipient	▪ letter or memo
Authorization	
▪ Authorizing legislation	
▪ Date in force	
▪ Wording of authorizing section; does the section refer to “may” or “shall” make a grant?	▪ a government has less discretion when it is required to (shall) make a transfer
▪ List of documentation (internal and external) that requires signature of delegated authority	
▪ What is the evidence to show that the exercise of authority has been made?	
Eligibility criteria	
▪ Who does the recipient have to be (specific individual/ organization/government) to qualify for the transfer?	
▪ What is the individual/ organization/government required to do to become a recipient?	
Summary - when to record an expense?	
▪ Financial statement date (year-end or quarter-end)	
▪ Authorization in place?	

Appendix E

Transferring government assessment
Determining when to record an expense

Transfer program/name	
▪ Eligibility criteria met?	▪ To what extent? If recipient is eligible after incurring costs (as in a cost-sharing agreement), then recipient may be eligible for certain percentage of costs (may need to estimate)
Record transfer expense?	When the answer to both questions is "yes" record an expense to the extent that eligibility criteria have been met

Appendix E

Recipient government assessment
Determining when to record revenue

Transfer program/name	
Related documents	
▪ Federal legislation	▪ if known
▪ Federal regulations	▪ if known
▪ Order in Council	▪
▪ Agreement	▪ entered into under the Authorizing legislation (above) and *The Executive Government Administration Act* provisions for federal/provincial agreements
▪ Application form	▪ completed by recipient
▪ Transfer payment request form	▪ MIDAS form
▪ Communication to recipient	▪ letter or memo
Authorization	
▪ Authorizing legislation	
▪ Date in force	
▪ Wording of authorizing section; does the section refer to "may" or "shall" make a grant?	▪ a government has less discretion when it is required to (shall) make a transfer
▪ What is the evidence to show that the exercise of authority has been made?	
Eligibility criteria	
▪ Who does the recipient government have to be to qualify for the transfer?	
▪ What is the government required to do to become a recipient?	
Summary - when to record the transfer?	
▪ Financial statement date (year-end or quarter-end)	
▪ Authorization in place?	
▪ Eligibility criteria met?	▪ To what extent? If recipient is eligible after incurring costs (as in a cost-sharing agreement), then recipient may be eligible for certain percentage of costs (may need to estimate)
Record transfer?	When the answer to both authorization and eligibility criteria questions is "yes" record the transfer to the extent the eligibility criteria have been met.

Appendix E

Recipient government assessment
Determining when to record revenue

Transfer program/name	
Recognize revenue?	In most cases, revenue would be recognized in full when the transfer is recorded. If the transfer agreement contains no stipulations revenue is recognized to the extent that eligibility criteria have been met.
Stipulations? ▪ the things that a recipient must do under the terms of the agreement that are not eligibility criteria	However, when transfers do include stipulations, a further assessment is required to determine whether the stipulations create a liability. ▪ are there stipulations in the agreement? If yes, complete stipulations and liability assessment sections. If no, recognize transfer revenue to the extent that eligibility criteria have been met.

Stipulations

▪ What else does the government (as recipient) have to do under the terms of this transfer?	
▪ What has the government done to satisfy these additional terms?	

Liability assessment

Consider the requirements of the transfer. Are the stipulations strong and detailed enough so that the government has little discretion over what to do with the funds or assets received? Have we, as the recipient government, taken action in such a way that would establish a liability? Are the following characteristics of a liability met:

▪ Is there a duty or responsibility to others?	
▪ Was there a past transaction or event?	
▪ Will there be a future sacrifice of economic benefits?	
Record liability?	▪ If the answers to any of these three questions is no, there is no liability. ▪ If each question is answered yes the revenue should be deferred (i.e., a liability recorded).
Recognize revenue?	▪ If there is no liability, revenue is recognized to the extent that eligibility criteria have been met. ▪ If a liability is recorded, the revenue is recognized as the stipulations are met.