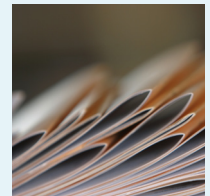
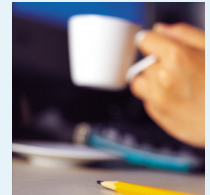




BDO Dunwoody LLP
Chartered Accountants
and Advisors



Public Sector Accounting

Government Transfers — Big Changes are Coming

Re-Exposure Draft – April 2009

The Public Sector Accounting Board (PSAB) issued its second Re-exposure Draft on Government Transfers in April 2009. The purpose of its Government Transfers project is to help resolve interpretation issues that have caused varied application of the current Government Transfers Standard in practice. This publication discusses the main features of the proposed Re-exposure Draft.

Recognition

Under the old PSAB reporting model, all government transfers were recognized on the same basis. Now recipients will treat capital transfers and transfers of capital assets differently from operating transfers. The follow chart summarizes the proposed treatment of government transfers for transferors and the recipients:

	Transferor	Recipient	
Type of Government Transfer	All Types	Operating	Capital or Capital Assets
When Recognize	Recognize as expense when: <ol style="list-style-type: none"> 1. Authorized; and 2. All eligibility criteria have been met 	Recognize as revenue when: <ol style="list-style-type: none"> 1. Authorized; and 2. All eligibility criteria have been met EXCEPT to the extent that the transfer gives rise to a liability.	First, recognize as a deferred capital contribution when: <ol style="list-style-type: none"> 1. Authorized; and 2. All eligibility criteria have been met. Then, recognize as revenue in same proportion as related tangible capital asset is recognized in expenses (for example — as asset is depreciated)

A decision tree laying out the recognition rules for recipients of government transfers is included in an Appendix.

Recipient – Operating Transfers

Operating transfers are recognized as liabilities versus revenue to the extent they give rise to a liability. The proposed Standard allows the recipient of the transfer to consider the following when determining if a liability has arisen:

- (1) Terms of the transfer alone; or

Example – A recipient government (municipality) receives an operating transfer that requires it to use the funds for a specific purpose — such as, obtain an additional medical officer. If the entity has not used the funds for that specific purpose by the year end date, then they essentially have a liability to the transferor until they use the funds for that purpose.

- (2) Terms of the transfer combined with the actions and communications of the recipient government BEFORE the financial statement date.

Example – The Federal government makes a transfer to Provincial governments for health care programs. One provincial government plans to then provide all those monies to its municipalities for their health care programs. Any actions and communications the provincial government has made by the financial statement date (such announcements of the funding to the municipalities, issuance of funds to some municipalities etc.) that are consistent with the substance and intent of the Federal government’s transfer terms can be considered when determining if it has a liability or not for the transfer it received.

Recipient – Capital Transfers

The treatment of capital contributions is a significant change for entities following PSAB. A deferred capital contribution will only be recognized in revenue when the related tangible capital asset is either expensed or otherwise disposed of. Deferred contributions are brought into revenue in the same proportion as the related tangible capital asset is taken to the statement of operations through amortization or write-downs. This means capital transfers for the purchase of land would remain as deferred capital contributions until the related asset is sold (or otherwise disposed of). Entities are not permitted to amortize capital contributions over a shorter period such as the development period of the capital asset or until it is acquired.

Authorization

The recognition of government transfers cannot occur in any of the situations noted in the chart above unless the transfer has been authorized. The chart below summarizes the authorization rules for transferors and recipients:

	Transferor	Recipient	
Type of Transfer	All Types	Operating	Capital or Capital Assets
Authorization occurs when there is evidence that:	<ol style="list-style-type: none"> 1. By the financial statement date, the government has made a decision such that they lost the discretion to avoid making the transfer; and 2. Either: <ol style="list-style-type: none"> a. The approved legislation, regulations or by-laws are in place; or b. Both of the following have been met: <ol style="list-style-type: none"> i. At the financial statement date, there is a preponderance of evidence that the government is demonstrably committed to approve the legislation, regulations or by-laws related to the transfer; and ii. The final approval of the legislation, regulations or by-laws occurs between the financial statement date and the financial statement completion date. 	<ol style="list-style-type: none"> 1. The approved legislation, regulation or by-law enabling the transfer is in place; and 2. By the financial statement date, the transferor has made a decision such that they lost the discretion to avoid making the transfer. 	

The second authorization scenario for transferring governments, noted above, should be a fairly rare occurrence.

A government that announced a new transfer program close to the financial statement date but the related legislation did not make it through all readings in parliament to be approved by the year end date is an example of such a situation. The second scenario also requires the transferring government to have a preponderance of evidence that it is demonstrably committed to approve the legislation enabling the transfer; individual items of evidence may not be sufficient on their own to meet this requirement so each situation must be judged on its own merits.

As a result of having different authorization requirements for transferring and recipient governments, the scenario where a transferor recognizes a transfer earlier than the recipient of that transfer is possible.

Financial Statements Presentation

With the introduction of the concept of deferred capital contributions for recipients of government transfers, the Re-exposure Draft proposes presenting deferred capital contributions separately on the statement of financial position below non-financial assets as follows:

Statement of Financial Position	
December 31, 20XX	
Financial assets	\$ 100
Liabilities (Note)	150
Net debt	(50)
Tangible capital assets	400
Inventories	10
Total non-financial assets	410
Deferred capital contributions	X
Net assets (accumulated surplus/deficit)	\$ X
<i>Note: Liabilities would still include any operating transfers that meet the liability recognition requirements.</i>	

Disclosures

The standard proposes disclosure of major kinds of transfers recognized during the period in the statement of operations (for example, health and social funding, shared cost programs, local government operating transfers, capital transfers). The standard would also require disclosure of the outstanding deferred capital contributions at the beginning and end of the period, additions to deferred capital contributions, reductions to deferred capital contributions and the amount of amortization of deferred capital contributions for the period.

Effective Date

The Re-exposure Draft proposes applying the Section to all transfers recognized on or after April 1, 2011. The standard would not be applied retroactively; as a result, the new accounting would not apply to any outstanding transfers at the date of adoption. Early adoption is encouraged.

As a result of the transitional provisions in the proposed standards, this would mean that local governments adopting Section 3150 – Tangible Capital Assets for years beginning on or after January 1, 2009 would not have to recognize previous capital grants as deferred capital contributions. They would continue to recognize capital grants as revenue once they were authorized, the recipient met the eligibility criteria and they could reasonably estimate it. Thus, for 2009 year ends, a municipality that bought a building for \$100,000 and received a \$60,000 grant from the federal government for the purchase would recognize the building as a capital asset and amortize it over its useful life, while the \$60,000 grant would be recognized as revenue immediately assuming the federal government authorized the grant, the municipality bought the property and had no other eligibility criteria. Once the new government standard was applied in 2011, the municipality would not retroactively restate its financial statements to set up the original \$60,000 grant as a deferred capital contribution, the prior treatment would remain, however, any future capital contributions would be deferred and amortized.

Appendix

Decision Tree for Recognition of Government Transfers for Recipients

From Proposed Public Sector Accounting Handbook Section on Government Transfers

