

21.2 Federal Transfers

Policy Statement

It is the policy of the Province of Nova Scotia to record Federal Transfers in accordance with generally accepted accounting principles for the public sector.

Definitions

AUTHORIZATION

A transfer is authorized when the federal government (a) has the authority to enter into a transaction, which is conveyed through approved legislation or regulations, and (b) the federal government has exercised the authority. Authorization is usually derived from an approved federal budget or program approvals. The exercise of authority under approved legislation or regulation does not need to include the authority to spend.

CLOSE OF PERIOD 12

Last date that entries can be posted to period 12 in the fiscal year. This usually falls in early or mid May.

ELIGIBILITY CRITERIA

Eligibility criteria are a type of stipulation that specify what characteristics recipients need to have or what they need to do in order to qualify to receive a transfer. Eligibility criteria may include having certain characteristics specified by the transferring government, incurring a reimbursable cost under an applicable program, or completing an action that must be accomplished in order for the recipient to qualify to receive the resources.

FEDERAL TRANSFERS

Includes all revenue transfers to the province from the federal government including Canada Health Transfer (CHT), Canada Social Transfer (CST), Equalization Transfers, as well as taxes collected on behalf of the province and other transfers from the federal government that are considered revenue.

FEDERAL TRANSFERS RECEIVABLE AND FEDERAL TRANSFERS PAYABLE

Federal Transfer amounts owed to or owed by the federal government to the province and still outstanding at fiscal year end. These amounts apply to amounts that arise from variances between the Federal Transfers estimated by the Provincial Forecasting Model and the cash payments received.

FEDERAL ADJUSTMENT PERIOD

Normally a three year period, subsequent to a fiscal year end, in which the federal government may make adjustments to the transfers it has allotted to the provinces.

PERIOD 12

The accounting period ended March 31 of the fiscal year.

PRIOR YEARS' ADJUSTMENTS (PYA)

Federal Transfers of prior years resulting from changes to estimates of the federal government or the provincial forecasting models.

PROVINCIAL FORECASTING MODEL

Economic and statistical models, coupled with policy rules for each type of revenue, that are used to generate calculations for expected Federal Transfers in each fiscal year.

Policy Objectives

The objective of this policy is to define the recognition criteria and recording process for Federal Transfers. The policy also clarifies when to record or adjust Federal Transfers Receivable or Federal Transfers Payable and Prior Years' Adjustments.

Application

This policy applies to all transfers from the federal government that are considered revenue.

The CSU provides accounting assistance for revenues from the federal government including the following:

- Personal Income Tax (PIT)
- Corporate Income Tax (CIT)
- Corporation Capital Tax for Non-Financial Institutions (often called "Big Business Tax") CCT-(NFI)
- Harmonized Sales Tax (HST)
- Preferred Share Dividends
- Equalization
- Canada Health & Social Transfer (CHST) (this was replaced by the CHT and CST in 2004-05)
- Canada Health Transfer (CHT)
- Canada Social Transfer (CST)
- Statutory subsidies

- Offshore Oil and Gas Licences and Forfeitures
- Offshore Petroleum Royalties

It should be noted that Corporation Capital Tax - Financial Institutions is not included. As of April 1, 2003, the administration of CCT-FI was moved from Department of Finance to Department of Service Nova Scotia & Municipal Relations. Payments for this program are made monthly, directly from the financial institutions to the province and are not considered part of Federal Transfer Payments.

Policy Directives

REVENUE RECOGNITION

Federal Transfers are recognized in revenue in a fiscal year when all the following are achieved:

- Authorization for the Federal Transfer is obtained by March 31st of the fiscal year in question.
- All eligibility criteria for the Federal Transfer have been satisfied by March 31st of the fiscal year in question.
- A reasonable estimate of the Federal Transfer can be made. Estimates are updated for all information received to the date the financial statements are released.

The amount of Federal Transfers revenue due to the province in any year may be based on a federal budget allocation of funds for a specific program or project. Usually the amounts of revenue are quite clearly defined by the program or project.

Many of the province's significant Federal Transfers are determined by federal-provincial funding agreements tied to a number of economic and statistical factors such as taxes collected, Gross Domestic Product, population, results from other provinces, etc. These revenue amounts are less defined so are estimated using forecasting models fed by the variables in the agreements. The province's Federal Transfers are estimated by the Provincial Forecasting Model managed by the Fiscal and Economic Policy Branch of the Department of Finance. These estimates are quite detailed and reliable, therefore, appropriate measures of recording revenue of each year.

RECORDING REVENUE

Postings to the revenue accounts are completed on an annualized basis, and not on a periodic posting basis. Revenues are recorded at once for the entire year based on forecasted. The provincial forecast may (and often) differs from the federal forecast

due to timing differences in the two sets of estimations. It is the Provincial Forecast that is recorded in the general ledger.

The province tracks Federal Transfers and related adjustments and payments by revenue type for each fiscal year specifically. An SAP Accounts Receivable Module (AR sub-ledger) is maintained to record the original revenue estimate as receivable and subsequently to record any adjustments for new information and any payments received from the federal government. Normally an AR sub-ledger customer is the name of a company or person who owes money. In this case, the customer accounts are named according to revenue type and fiscal period, such as HST 2004–05 separate from HST 2005-06.

In the event that there is a variance between the amount of Federal Revenue that has been estimated by the province and the amount of Federal Transfers received in the year, the province's AR sub-ledger will show a net balance – either a Federal Transfers Receivable or a Federal Transfers Payable.

As the province receives new information in subsequent years, the Provincial Forecasting Model is updated. Updated estimates of revenues for the past years are prepared. Additional receivables or payables are recorded to adjust the revenue to the new estimates. These are recorded as revenues of the current fiscal year but separate from the current year's estimated revenues. The adjustments to past years' revenues are recorded separately from current year revenues in revenue accounts called Prior Years' Adjustments. The AR sub-ledger is adjusted accordingly for that revenue type of the past fiscal year.

The federal government will make revenue adjustments to Provincial allocations for up to three years after the fiscal year to which the revenues pertain. At the end of the three year period, the federal government has completed its final assessments and further adjustments for revenue are not usually made. Periodically an adjustment to the final assessment is required in the fourth year after a fiscal year. The province will adjust any remaining receivable or payable balances to zero after four years, one year after the Federal Adjustment Period expires.

Recording of Federal Transfers and Prior Years' Adjustments is usually cut off at the end of period 12 to reflect the most recent results from the Provincial Forecasting Model's calculations. If new information becomes available up to the date of financial statement finalization, during periods 14 and 15, it will be reviewed for its impact on revenues. If there is a material impact, further adjustments will be recorded, usually in early to mid September.

PAYMENTS PROCESSING

The federal government remits most funds electronically with an accompanying transmittal letter containing details about the payment. Payments are received in the bank and credited to Federal Payments Clearing account (116404) by Liability Management and Treasury Services (LMTS).

The Natural Resources CSU and Finance CSU clear out the AR Clearing account by applying the payment to the appropriate AR sub-ledger accounts as partial payments only, without clearing against documents on the account. Payments posted on account need to be specifically identifiable in the records for an audit trail that matches the payment remittance letters.

On a monthly basis the CSUs advise LMTS of any payments that were not credited to the Federal Payments Clearing account (116404). LMTS reviews incoming deposit information and either corrects a mis-posting or advises that the federal transfer payment was not received. The CSU contacts the Fiscal Policy accounting supervisor who pursues further explanations from the appropriate officials at the federal government.

Payments should be applied on a timely basis and the Federal Payments Clearing account (116404) is to be cleared to zero monthly. To accomplish this, the Fiscal Policy accounting supervisor should provide the Manager of Accounting in the Finance CSU with copies of all transmittal letters before the 24th of each month.

Industry codes have been established to allow for sorting of the accounts receivable trial balance by revenue type. In the event that a new industry code is required to track a new revenue source, Fiscal Policy will request this from the Finance CSU who will request this from SAP.

POLICY GUIDELINES

The Minister of Finance has a legislated obligation to table the Public Accounts in the House of Assembly no later than September 30th following the year end of the province¹. In order to meet this obligation, adjustments to revenues and all other accounts must cease by mid-September to allow time to finalize and publish the Public Accounts. Consistent treatment for the recognition of Federal Transfers and Prior Years' Adjustments will ensure comparability of revenues in subsequent years.

¹*Provincial Finance Act, Chapter 10*

Accountability

The management of estimating and recording Federal Transfers requires the collaboration of the following groups with specific responsibilities as follows:

FISCAL AND ECONOMIC POLICY BRANCH, DEPARTMENT OF FINANCE - EXCEPT PETROLEUM ROYALTIES REVENUE

- forecast and report Federal Transfers and PYA. Provide information to CSU for recording the revenues
- obtain monthly EFT deposit notifications from the federal government
- code the customer number on the monthly EFT deposit notifications and forward to the Finance CSU
- prepare forms for final adjustments of customer balances (debit or credit) using the Federal Revenue Adjustment Form
- obtain the annual cash flow projections from the federal government
- prepare a Federal Revenue Adjustment Form using the annual cash flow projection from the federal government and forward, with a copy of the cash flow adjustment attached, to the Finance CSU for processing

FINANCE CSU, DEPARTMENT OF FINANCE

- record revenues using the SAP Accounts Receivable Module by type and by year
- transfer deposits in 116404 Clearing account to the SAP Accounts Receivable Module customer for which the payment relates
- create and maintain customer files of supporting documentation
- file the payment and adjustment (#1400) documents in each customer file
- close customer accounts in consultation with the Director of Fiscal Policy
- submit closed files for archiving in accordance with the STAR/STOR guidelines for the province
- on a monthly basis run a trial balance for the AR sub-ledger and ensure it agrees to the general ledger control account balance. Forward the trial balance to the Director of Fiscal Policy for review. This report can be printed by revenue type using the industry code, if desired. On an annual, or as requested basis, produce a statement of account for each customer account that indicates the transactions processed through each account. Provide these statements of account to Government Accounting for the year-end audit files. Alternatively, provide a report on open items for all customers.

DEPARTMENT OF ENERGY - PETROLEUM ROYALTIES REVENUE ONLY

- forecast current year and PYA royalties. Forward information to Natural Resources CSU

- obtain monthly EFT deposit notifications from the federal government
- work with Natural Resources CSU to ensure cash receipts are reconciled with forecasted revenues
- review of revenues recorded in the accounts

FINANCE CSU, DEPARTMENT OF NATURAL RESOURCES - PETROLEUM ROYALTIES REVENUE ONLY

- record revenues using the SAP Accounts Receivable Module by type and by year, based on revenue forecast information received from Department of Energy
- obtain monthly EFT deposit notifications from the federal government
- code the customer number on the monthly EFT deposit notifications and forward to the Finance CSU
- prepare forms for final adjustments of customer balances (debit or credit) using the Federal Revenue Adjustment Form
- transfer deposits in 114604 Clearing account to the SAP Accounts Receivable Module customer for which the payment relates
- create and maintain customer files of supporting documentation
- file the payment and adjustment (#1400) documents in each customer file
- close customer accounts in consultation with the Director of Fiscal Policy
- submit closed files for archiving in accordance with the STAR/STOR guidelines for the province
- on a monthly basis run a trial balance for the AR sub-ledger and ensure it agrees to the general ledger control account balance. Forward the trial balance to the Director, Fiscal Policy for review. This report can be printed by revenue type using the industry code, if desired. On an annual, or as requested basis, produce a statement of account for each customer account that indicates the transactions processed through each account. Provide these statements of account to Government Accounting for the year-end audit files. Alternatively, provide a report on open items for all customers.

LIABILITY MANAGEMENT AND TREASURY SERVICES, DEPARTMENT OF FINANCE

- record EFT deposits in SAP in account 114604 Clearing account

GOVERNMENT ACCOUNTING, DEPARTMENT OF FINANCE

- accounting interpretation and reporting support as required

Monitoring

Government Accounting will monitor the policy's performance and effectiveness.

References

PSAB Handbook Section PS 3200 Subsequent Events

PSAB Handbook Section PS 3410 Government Transfers

Enquiries

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