

13. Under PSAB, amounts that have to be placed into “externally restricted” reserves are set up as Deferred Revenues. Does PSAB also determine when the amounts have to be recognized as revenues and transferred out of Deferred Revenues?

*As indicated in the PSAB training materials and the instructions to the financial statements, PSAB requires some grants to be set up as deferred revenues when the monies have not yet been spent for the purposes specified. This is consistent with the regulations requiring boards to set aside monies into specific reserves and is consistent with past practice. These “externally restricted reserves” are therefore reported as a deferred revenue liability on the Statement of Financial Position.*

*Past practice however may not have been to transfer the amounts out of the “reserves” as soon as the eligible expenditures are incurred. In many cases, boards may have left some funds in the various reserves even when they could have transferred the amounts out. Examples could include leaving money in a classroom reserve to provide a cushion for future years or choosing to match the transfers out of a pupil accommodation reserve to the related debt service costs rather than showing the transfer at the time of the capital expenditure.*

*PSAB requires that the grants be recognized as revenue (ie. transferred out of the externally restricted reserves) when the eligible expenditures have been incurred.*

*If boards wish to continue to hold these amounts in a reserve fund, they would have to transfer the amounts to an internally restricted reserve that is reported in the Reserve Fund Balance section of the Statement of Financial Position.*

*The applicable portions of the CICA Public Sector Accounting Handbook are:*

- 1800.38 ♦ *Revenues should be accounted for in the period in which the transactions or events occurred that gave rise to the revenues. [APRIL 1993]*
- 1800.40 *A local government may receive amounts before the transactions or events occur that give rise to the revenues. Those amounts should not be included in revenue, but would be considered a deferred revenue until the local government discharges the obligations that led to the collection of the funds. For example, depending on the underlying agreements or legislation, some development charges and other contributions may be deferred revenues.*
- 3100.11 *Externally restricted inflows should be recognized as revenue in a government's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a liability until the resources are used for the purpose or purposes specified. [JUNE 1997]*