

SECTION PS 3100 restricted assets and revenues

TABLE OF CONTENTS	Paragraph
Purpose and scope	.01-.03
Definitions	.04
External restrictions	.05-.19
Revenue recognition	.07-.13
Disclosure	.14-.19
Internally restricted entities	.20-.26
Designated assets	.27-.31
Effective date and transitional provisions	.32

PURPOSE AND SCOPE

.01 This Section establishes standards on how to account for and report restricted assets and revenues in government financial statements. The standards do not apply to:

(a) trusts under administration, which are excluded from the government reporting entity (see GOVERNMENT REPORTING ENTITY, paragraph PS 1300.40); and

(b) government transfers, which are addressed in GOVERNMENT TRANSFERS, Section PS 3410. 1

.02 Assets and revenues subject to restrictions are not available to meet the government's general obligations and finance its other activities. Accordingly, financial statement users need information about restrictions on the government's resources to assess the government's financial position and results.

.03 Governments operate under different types of limitations, which may restrict the government's access to resources by varying degrees. Some restrictions are imposed by agreements with external parties or by legislation of another government. Others are imposed by a government's own legislation, where the terms and conditions of the legislation establish an accountability relationship with an external party. Finally, some limitations are designations of assets set aside by governments for a particular purpose. The different types of limitations affect how each is accounted for and reported.

DEFINITIONS

.04 For the purposes of this Section:

(a) **External restrictions** are stipulations imposed by an agreement with an external party, or through legislation of another government, that specify the purpose or purposes for which resources are to be used.

(b) **Internally restricted entities** are separate legal entities, within the government reporting entity, created by the government's own legislation. This legislation establishes an accountability relationship with parties external to the government reporting entity to use the entity's assets or net assets as specified while that legislation is in effect. Such legislation stipulates, either explicitly or implicitly through the terms of the legislation, that:

(i) the entity's revenues, which are derived principally from identified parties external to the government reporting entity in exchange for specified goods or services, can only be used to provide those goods and services; and

(ii) the government cannot use the assets or net assets of the entity for a purpose other than providing the goods and services for which the resources were received.

(c) **Designated assets** are assets that have been formally designated by the government to indicate the government's intention to use those assets for a specific purpose.

EXTERNAL RESTRICTIONS

.05 Resources restricted by agreement with an external party, or by legislation of another government, are the least accessible of the government's resources. They cannot be used for other than the stipulated purpose unless the government obtains approval or permission from the external party or there is a change in the pertinent legislation.

.06 Often, external restrictions are associated with inflows of resources received from external parties who stipulate that amounts received be used in a particular manner. There may also be external restrictions imposed on the government's own assets, as can be the case with most sinking fund investments.

Revenue recognition

- .07 Governments receive resources from external parties in the course of their ongoing operations. If the external parties specify how those resources are to be used, those inflows would be restricted in nature. For example, local governments often receive development contributions that are restricted under specific agreements or the terms of relevant legislation. Such restrictions may identify specific expenditures or classes of expenditures that must be made.
- .08 The class of expenditures may be defined by reference to the type of expenditure or intended use, or to the time period in which the expenditures are to be made. Some restrictions simply stipulate a broad area of the government's activities in which the contributed resources are to be used, such as economic development. In order to be restricted, it is not necessary that the economic development expenditures be more specifically identified in the agreement or legislation.
- .09 Some restricted inflows may be received in the same period as the expenditures, related to the use of the restricted resources, are incurred. When this is the case, the restrictions associated with the inflows have effectively been complied with by the financial statement date. Therefore, the externally restricted inflows would be recognized as revenue in the same period.
- .10 Other restricted inflows may be received before the period in which the related expenditures will be incurred and, therefore, should not be recognized as revenues in the current period. In such cases, the government has an obligation to use the resources as stipulated in a future period and that obligation is best reflected by recording the unspent portion as a liability (unearned revenue). [Former paragraph PS 3100.10, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]
- .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]
- .11A For presentation purposes, the guidance on classification of liabilities in FINANCIAL STATEMENT PRESENTATION, Section PS 1202, would apply.
- .12 Income on externally restricted assets may or may not be restricted, depending on the terms of the agreement or legislation. If the provisions of the relevant agreement or legislation require that the income be restricted, then the revenue recognition principle in paragraph PS 3100.11 would apply. For example, governing legislation may stipulate that income on unspent development contributions also has to be used for development. Such income would be recorded as a liability until used for the purpose or purposes specified.
- .13 Income on sinking fund assets may be subject to restrictions that it be set aside in the sinking fund. Once the income has been attributed to the sinking fund, it has been used for the purpose specified and would be recognized as revenue.

Disclosure

- .14 When the terms and conditions of agreements with external parties or legislation of another government impose restrictions on the use of resources, users need to understand both the nature and source of those restrictions and their impact on the government's financial position and results. Therefore, users need information about the policies followed in accounting for externally restricted inflows, as well as the nature and source of external restrictions, the amount of deferred revenue attributable to major categories of external restrictions and the changes in those balances.
- .15 Externally restricted assets may be associated with externally restricted inflows. Often, however, governments do not physically segregate these restricted assets, but commingle them with other resources for management purposes. In such cases, reporting deferred revenue to show the obligation to use resources in the future for the restricted purpose or purposes, together with disclosure of the nature and source of the restriction, is usually adequate. However, when those assets are required to be segregated from other government assets and cannot be used, or borrowed, for other purposes, that information would be disclosed.
- .16 External restrictions on assets may also arise as a direct result of an agreement with external parties to set assets aside for a specific purpose, such as sinking funds set aside to retire debt or unspent debenture proceeds of a local government earmarked for specific capital works. Often these assets will be segregated and information about them would be disclosed.
- .17 When externally restricted assets, such as sinking fund assets, are significant in relation to the government's total assets, it may also be desirable to identify them separately on the statement of financial position (see LONG-TERM DEBT, paragraph PS 3230.03).
- .18 *Government financial statements should disclose in notes or schedules:*
- (a) a general description of the nature and source of any external restrictions;*
 - (b) the amounts of externally restricted inflows by major source;*
 - (c) the amount of, and changes in, the deferred revenue balance attributable to each major category of external restrictions; and*

(d) any externally restricted assets that are segregated, including an explanation of the relationship of those assets to the related liability. [JUNE 1997]

- .19 The disclosure provided by governments would reflect the highly aggregated nature of financial statements. In deciding the level of detail to provide on sources of externally restricted inflows and segregated assets, governments would consider the usefulness of the information to the reader. Users must be able to assess the nature and extent of externally restricted assets and revenues and their impact on the government's financial position and results.

INTERNALLY RESTRICTED ENTITIES

- .20 Restrictions on the use of the assets or net assets of certain entities can also be imposed by a government's own legislation. However, since a government can change its own legislation, such restrictions are different from those imposed by external parties.
- .21 When an organization included in the reporting entity is internally restricted, legislation establishes that the revenues and assets or net assets of that entity can be used only to finance the entity's operations. They are not available to discharge other government liabilities or to finance other government programs. The key distinction is that the terms of the legislation establish, either explicitly or implicitly, a relationship between the government and external parties who have a direct interest in how funds contributed to the entity have been used. In such circumstances, even though the government has the ability to change the restriction without the consent of the external parties, there is a direct accountability to those parties to use the resources as specified while that legislation is in effect. Disclosing information about internally restricted entities in the government's financial statements demonstrates that accountability to those external parties. [Former paragraph PS 3100.21, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- .22 It is also important for users of financial statements to understand the extent to which a government's resources can only be used to finance the operations of internally restricted entities. Since these internal restrictions limit the government's financial flexibility, they are important in assessing the government's financial position.
- .23 Users of financial statements need to understand the nature of the restrictions imposed by the government's own legislation on the revenues, assets and net assets of government entities. Users also need an appreciation of the magnitude of government resources that are restricted for use in internally restricted entities. As internally restricted entities are fully integrated in the government's financial statements (whether consolidated or accounted for on a modified equity basis if they are business enterprises), it is important to provide condensed supplementary information on their financial position and operating results.
- .24 *Government financial statements should disclose, in notes or schedules, condensed supplementary financial information relative to internally restricted entities. The financial information should be provided for internally restricted entities or groups of similar entities, and for all internally restricted entities as a whole. The information provided should report the financial position and results of operations, including:*
- (a) *total assets and liabilities segregated by main classification;*
 - (b) *net assets or liabilities;*
 - (c) *total revenues and expenses; and*
 - (d) *net operating results for the period.*

In addition, a general description of the nature of the internal restriction should be provided. [JUNE 1997]

- .25 Condensed supplementary financial information for internally restricted entities could be presented by individual government entity or grouped for entities with similar types of restrictions. Such information would provide an understandable summary that would allow users to assess the extent to which government resources are inaccessible.
- .26 Where an internally restricted entity's financial position and/or results of operations are significant in relation to the government's overall financial position and/or results of operations, a government may choose to identify this information separately on the financial statements.

DESIGNATED ASSETS

- .27 Governments may designate a portion of their total assets to reflect their intention to use those assets for certain purposes. Assets may be designated for a specific purpose as a result of government legislation, by-law or resolution that limits the use of assets to specified purposes.
- .28 Designated assets are distinct from restricted assets. Unlike restricted assets, governments can readily change the legislation, by-law or resolution and use the designated assets for another purpose if the need arises. Designated assets are often available to support reserves, although not all reserves are supported by designated assets.
- .29 Designated assets, that are not otherwise restricted in use, may be disclosed in the notes. Even though such assets may be commingled with other assets for management purposes, the government must be able to identify the underlying assets that are to be used. Generally, such assets will be cash or investments.
- .30 *When a government chooses to provide information about designated assets, it should do so in the notes, not on the statement of financial position. Such disclosure should include a description of the assets and their intended use. [JUNE 1997]*

- .31 The disclosure provided by governments would reflect the highly aggregated nature of financial statements. In deciding the disclosure to provide, governments would consider the usefulness of the information to the reader in assessing the nature of a government's designated assets.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

- .32 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraph PS 3100.10 and added paragraph .11A. The amendments are applicable at the same time as Section PS 1202, for fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted if Section PS 1202 is also early adopted. Prior period amounts would need to be restated to conform to the requirements for comparative financial information in Section PS 1202.
-

Footnotes

1. The transitional provisions relating to this scope restriction are set out in GOVERNMENT TRANSFERS, paragraph PS 3410.37.
-

[Terms and Conditions](#) and [Privacy Policy](#)

Help desk: Mon-Fri, 9am-5pm ET [1-866-256-6842](#) [Contact Us](#) [Quick Reference Guide](#)

© 2001-2025, Knotia Canada Limited Partnership All rights reserved.