

Accounting Guide

**Accounting For Purposes of
*The Elections Finances Act***

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Section 100

INTRODUCTION

- .01 *The Elections Finances Act (EFA)* is the legislation that governs financial matters of registered political parties, constituency associations, candidates, leadership contestants and other participants in the electoral process. The *EFA* requires these participants to file various forms, financial statements, and returns that report financial balances or financial transactions to the Chief Electoral Officer (CEO). Forms, financial statements, and returns filed with the CEO are available for public inspection.
- .02 Specifically, the *EFA* requires that the following forms, financial statements, and returns be filed with the CEO:
- a) Annual Financial Statement of a Registered Political Party (Form 920);
 - b) Statement of Income, Transfers and Election Expenses of a Registered Political Party for a Campaign Period (Form 921); and,
 - c) Candidate's Financial Statements and Supporting Schedules (Form 922).
 - d) Leadership Contestant's Financial Statement and Supporting Schedules (Form 947)

In addition, a number of other returns and forms are required to be filed with the CEO, but have not been specified here.

- .03 The Office of the CEO, called Elections Manitoba, is an independent and non-partisan office of the Manitoba Legislative Assembly and has prescribed the forms referred in paragraph .02. Separate external financial statements, in addition to the prescribed forms, are not required.
- .04 The term "financial statement" is used throughout the remainder of this document to describe the forms prescribed in paragraph .02.

PURPOSE

- .05 The accounting principles upon which the financial statements are based must be made plain in order to achieve reliable, comparable, and relevant reporting.

- .06 *Accounting Guide – Accounting For Purposes of The EFA establishes the accounting principles upon which financial balances and transactions should be based when reporting, in a prescribed manner, to the CEO.*
- .07 However, general principles cannot be worded to suit all circumstances that may arise and, therefore, judgment should be exercised in conjunction with the guiding principles when making decisions on accounting and reporting.
- .08 *Accounting Guide – Accounting For Purposes of The EFA provides the framework within which registered political parties, constituency associations, and candidates, leadership contestants and those other participants in the electoral process responsible for compliance with the EFA, exercise judgment when making accounting and disclosure decisions. Where this document does not provide the necessary guidance, reference should be made to:*
- a) *The EFA;*
 - b) *Interpretations of Elections Manitoba;*
 - c) *Consultation with Elections Manitoba, including written requests for response;*
 - d) *Canadian generally accepted accounting principles, including the CICA Handbook.*
- .09 It is not the intent of *Accounting Guide – Accounting For Purposes of The EFA* to provide direct solutions to every possible circumstance, but instead to provide the guidance necessary to allow responsible persons to exercise reasonable judgment in arriving at solutions that are in accordance with the spirit and intent of the *EFA*.

ACCOUNTING GUIDE – ACCOUNTING FOR PURPOSES OF THE EFA DOES NOT TAKE PRECEDENCE OVER THE EFA

- .10 *This document must be interpreted in conjunction with the EFA.*

FORMAT

- .11 All of the recommendations have been set in italics to highlight them from the remainder of the text. Additional commentary has been provided to illustrate the context within which the recommendations have been presented.

EFFECTIVE DATE

- .12 *Accounting Guide – Accounting For Purposes of The EFA* is effective January 9, 2009. However, this document does not take precedence over the *EFA* and, accordingly, financial statements filed before the effective date, as well as after, are subject to the applicable requirements of the *EFA*.

REVIEW BY ACCOUNTING BODIES

- .13 *Accounting Guide – Accounting For Purposes of The EFA* has been reviewed by The Institute of Chartered Accountants of Manitoba. The Institute has noted that the guide is a limited purpose document intended to provide assistance to entities and persons governed by The Elections Finances Act and their auditors. As such it does not include all of the standards of the CICA Handbook. **Users of the guide, particularly auditors are cautioned that it should be used in conjunction with the CICA Handbook and the code of conduct of their professional association.**

Section 200

GENERAL REPORTING STANDARD

APPLICATION OF REASONABLE JUDGMENT

- .01 Reasonable judgment is exercised if the spirit and intent of the *EFA* is taken into account when making decisions on the treatment of a transaction. In addition, reasonable judgment is exercised when an independent and unbiased person having knowledge of the *EFA* would handle the same transaction in a similar manner.
- .02 Financial reporting is generally based on past, rather than future transactions and events. However, there may be instances where an assessment of a possible future event may impact on how a past transaction ought to be reported. For example, the lack of financial means of a candidate to pay an amount owing to a supplier of goods or services may dictate that the unpaid amount be reported as a donation in kind contribution, rather than an account payable.
- .03 There may also be instances where the transaction to be reported will be based on an estimate or approximation, such as the determination of the market value of donated goods and services.
- .04 *It will be necessary to exercise reasonable judgment when accounting for prior transactions, when assessing future events, and when making estimates and approximations.*
- .05 Applying reasonable judgment may include, but is not limited to, the following steps:
 - a) Consultation with a professional accountant or someone experienced in accounting matters;
 - b) Consultation with legal counsel;
 - c) Consultation with Elections Manitoba;
 - d) Consultation with political parties, official agents, chief financial officers, or others that have experience with the electoral process and the *EFA*.

SUBSTANCE OVER FORM

- .06 The underlying substance of transactions and events may not always be consistent with their apparent legal or other form. The determination of the substance of a transaction or event will be a matter of judgment.

REPORTING STANDARD

- .07 *Registered political parties, constituency associations, candidates, and other participants in the electoral process that are required to disclose financial balances and transactions should do so in a manner which fairly and transparently discloses the substance of the transactions or events.*

Section 300

ASSETS & LIABILITIES

- .01 The *EFA* requires registered political parties to file an annual financial statement (Form 920) and a separate election financial statement (Form 921) in an election year. Candidates are required to file an election financial statement (Form 922) within 2 months of the end of their candidacy period and leadership contestants must file a financial statement (Form 947) within 30 days after a leadership contest period.
- .02 The annual and election financial statements contain basic categories of items similar to those of an external financial statement.
- .03 The *EFA* provides specific rules on the manner in which income and expenses should be recorded and reported. Guidelines relating to income and expenses are discussed in detail in Sections 690 and 695 of this document.
- .04 The purpose of this section is to provide guidance in the determination of assets and liabilities of a registered political party or candidate or a leadership contestant. Constituency associations are not required to report on assets and liabilities.

ASSETS

- .05 *Assets are economic resources controlled by a political party or candidate or a leadership contestant as a result of past transactions or events and from which future economic benefits may be obtained.*
- .06 Examples of assets would include:
- Cash;
 - Investments, such as bonds or company stock; and,
 - Inventory, such as signs and supports

LIABILITIES

- .07 *Liabilities are obligations of a political party or candidate or a leadership contestant arising from past transactions or events, the settlement of which may result in the future transfer or use of assets, generally cash.*
- .08 Examples of liabilities would include:

- Accounts payable, such as amounts owed to suppliers, and,
- Loans payable.

.09 Where additional guidance is required, reference should be made to the following:

- a) Canadian generally accepted accounting principles;
- b) Section 200, *Application of Reasonable Judgment*;
- c) Section 200, *Substance Over Form*.

Section 400

MAINTENANCE OF APPROPRIATE RECORDS

- .01 The responsibility for the maintenance of appropriate financial records is placed on the chief financial officer for a registered political party, the financial officer for a constituency association, and the official agent for a candidate. Incomplete or inadequate financial records may result in reporting of information on a financial statement that is other than fair presentation, and therefore not in compliance with the *EFA*. It is a serious matter where appropriate financial records have not been maintained.
- .02 Chief financial officers, financial officers, and official agents are often volunteers and may not have any experience in, or direct knowledge of, accounting or keeping of financial records. However, this does not lessen the legislated responsibility to maintain proper financial records or prepare complete and accurate financial statements. Those involved in the record-keeping and reporting process should undertake to gain this knowledge, externally or otherwise, in order to satisfy the requirements of the *EFA*.
- .03 *The maintenance of appropriate financial records to be used in the completion and filing of financial statements is the responsibility of the chief financial officer for a registered political party, a financial officer for a constituency association, and an official agent for a candidate or a leadership contestant.*

ATTRIBUTES OF AN APPROPRIATE ACCOUNTING AND RECORD-KEEPING SYSTEM

- .04 Judgment should be exercised in determining whether an accounting and record-keeping system is appropriate in the circumstances. Many different accounting systems exist (both electronic and manual) and the selection of one system over another is the decision of the representatives of a registered political party, constituency association, candidate or a leadership contestant. However, it is expected that the following minimum attributes will exist in any system utilized. When deciding on a particular accounting and record-keeping system the general reporting standard for financial statements should be considered, along with the requirements of the *EFA*.
- .05 The following attributes of an appropriate accounting and record-keeping system would include:
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- **Audit trail.** The system should provide a direct audit trail allowing an independent person to trace all items of information from the financial statement to the source of each individual transaction, which will usually be an invoice, voucher, cheque, purchase order, bank debit or credit, tax receipt, written agreement, or other document or record. Transaction details such as document number, date, name, amount, and nature of the transaction should be readily available.
 - **Bank reconciliation.** Procedures should be established to ensure that all transactions flow through the bank account, where practicable, and the system should facilitate the performance of a bank reconciliation. All transactions result in a bank debit or credit and, therefore, bank statements should be reconciled to the accounts of the registered political party, constituency association, or candidate to ensure that all transactions are recorded, they have occurred, and they are recorded accurately.
 - **Accuracy.** The system should be appropriately designed to allow for a set of records that are accurate and that result in fair and transparent presentation of the financial activities of the registered political party, constituency association, or candidate.
- .06 *The accounting and record-keeping system of a registered political party, constituency association, candidate or a leadership contestant must, along with other attributes, provide a direct audit trail from all amounts reported on the financial statement to the individual transactions, allow for a reconciliation of amounts recorded in the bank account to the accounting records, and provide financial information that is accurate and fairly presented.*

Section 500

REPORTING PERIODS

- .01 Depending on the type of financial statement being filed, and whether it is for a registered political party, constituency association, candidate or a *leadership contestant*, a number of different reporting and time periods may be applicable and should be understood. The following periods are defined under the *EFA*:

Year – the calendar year.

Candidacy period – the period commencing on the date on which a person becomes a candidate in an election and ending two months after election day for that election. In the event of the period end falling on a weekend or national holiday, the next business day marks the end of the candidacy period.

For the purposes of the *EFA*, a person becomes a candidate in an election in one of two ways:

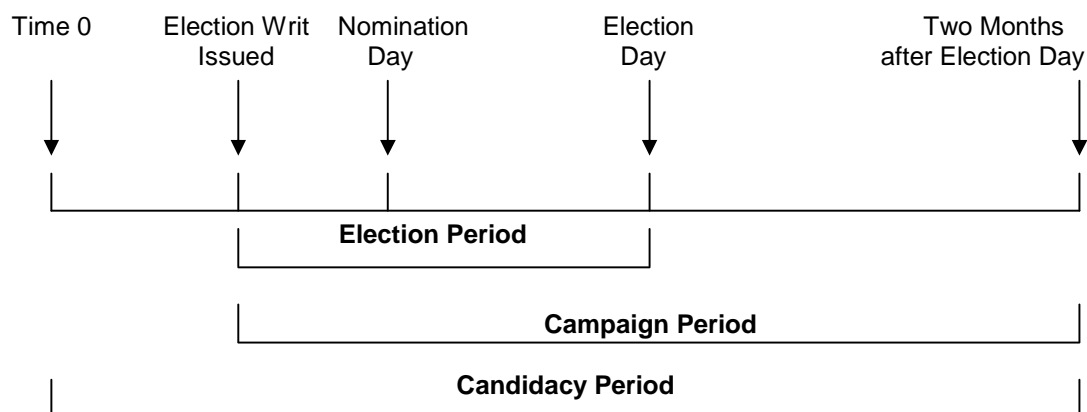
- For candidates associated with a political party – being nominated by a constituency association of a registered political party or, by filing nomination papers with a returning office during an election (whichever is earliest);
- For independent candidates – by declaring himself or herself to be a candidate or, by filing nomination papers with a returning officer during an election (whichever is earliest).

Campaign period – the period commencing on the date the election writ(s) is issued and ending two months after election day for that election. In the event of the period end falling on a weekend or holiday, the next business day marks the end of the campaign period.

Election period – the period commencing on the date of issue of a writ or writs for an election and ending on election day for that election. A minimum election period is 33 days but it can extend as long as 47 days.

"leadership contest period" - the period beginning on the date of the official call of a leadership contest, as set out in a statement filed by a

registered political party under section 31.1, and ending two months after the date of the leadership vote;



REPORTING PERIOD AND TIMING IN YEAR OF ELECTION

- .02 *Registered Political Party – financial statement (Form 921) reports income (including contributions and transfers), election expenses of the party, and transfers to constituency associations and candidates from the commencement of the campaign period to the end of the campaign period. This financial statement is to be filed no later than 4 months after the end of the election day.*
- .03 *Candidate – financial statement (Form 922) includes election and non-election income and expenses, and transfers received and disbursed from the commencement of the candidacy period to the end of the candidacy period. Assets and liabilities are to be presented as at the last day of the candidacy period. This financial statement (Form 922) is to be filed no later than 4 months after the election day.*

ANNUAL REPORTING PERIOD

- .04 *Registered Political Party – financial statement (Form 920) reports activities of the party for the year, including end of year assets and liabilities, and is to be filed no later than three months after the end of the year. In the year of an election, a separate and additional financial statement is prepared that reports the election activity of the registered political party as described in paragraph .02 of this section.*
- .05 *Constituency Association – return (Form 924) is filed within 30 days after the end of the year and reports information on contributions received.*

Section 600

SPECIFIC ITEMS

Section 610

CASH

- .01 *Each registered political party, constituency association, candidate and leadership contestant is required to maintain an account at a financial institution. It is the responsibility of the chief financial officer, the financial officer, or the official agent to establish and maintain the account.*
- .02 A financial institution is a bank or credit union. A financial institution is also a trust company or loan company authorized under the law to accept money for deposit and carrying deposit insurance in accordance with the *Canada Deposit Insurance Corporation Act*.
- .03 *Those responsible for establishing and maintaining the account must deposit into that account all money provided to the registered political party, constituency association, candidate or leadership contestant, including loan proceeds and transfers, and make all disbursements, including transfers, from that account for the registered political party, constituency association, or candidate. Note that leadership contestants are not permitted to receive transfers from registered political parties, candidates or constituency associations.*
- .04 *The value of cash at the end of the period should be reported on Line 100 of the Statement of Assets, Liabilities and Surplus (Forms 920, 922 & 947).*
- .05 The maintenance of an account at a financial institution is important, and necessary, for the following reasons:
- a) It is a requirement of the *EFA*;
 - b) It makes it easier for those responsible for finances to monitor and control the financial activities of the party, association, or candidate. This in turn makes it simpler to prepare the financial statement;
 - c) It is required in order to complete an effective external audit;
 - d) It facilitates an effective review by Elections Manitoba, when necessary.
- .06 An account that does not return issued and cancelled cheques (e.g. a savings account) and does not have the general characteristics of a regular
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business account, would not be an appropriate account for the purposes of the *EFA*. Accounts that provide copies of the front and back of a cheque are acceptable.

- .07 An existing account may be used for the financial activity of a candidate provided that it is reduced to nil prior to any election activity occurring. However, the name of the account must be changed to the name of the candidate's campaign without delay once the candidacy period begins.
- .08 *An appropriate account is one that, amongst other things, has the general characteristics of a regular business account and provides for the return of issued and cancelled cheques.*

PETTY CASH DISBURSEMENTS

- .09 Given the nature of some of the activities of a registered political party, constituency association, candidate *or leadership contestant*, it may not be practicable to disburse all cash directly from the account. For example, for such items as meals or transportation, the supplier may not be willing to accept a cheque as payment. This does not, however, preclude the chief financial officer, financial officer, or official agent from their duties under section 10 of the *EFA*.
- .10 *For those petty cash disbursements where it is not practicable to disburse funds directly from the account, an advance should be provided from the account to the responsible person for authorized amounts prior to incurring the expense. By the end of the reporting period, invoices and vouchers should be provided to support each disbursement. Unused funds should be deposited into the account.*
- .11 For purposes of controlling campaign finances, approval should be given by the official agent for all credit card purchases prior to incurring the credit card expense. Ultimately, the reimbursement of the credit card voucher must be made directly from the campaign bank account. A credit card voucher that is not paid directly from the campaign bank account is a donation in kind contribution.

Section 620***ACCOUNTS RECEIVABLE***

- .01 *Accounts receivable should be reported on Line 110 of the Statement of Assets, Liabilities, and Surplus (Forms 920, 922 and 947) at the end of the period and are to be valued at the amount of money expected to be recovered when the accounts are settled.*
- .02 Due to the nature and source of the income of a registered political party, constituency association, candidate *or leadership contestant*, accounts receivable balances will not likely arise in the normal course of operations. Contributions and transfers (whether in cash or in kind), by definition, cannot result in a receivable balance being recorded since the cash receipt (or receipt of goods and services) is the source of the transaction. Accounts receivable at the end of the period may relate to such items as rebates and credit notes issued by suppliers but not yet received, or investment income receivable.
- .03 Where additional guidance is required, reference should be made to the following:
- a) Canadian generally accepted accounting principles;
 - b) Section 200, *Application of Reasonable Judgment*;
 - c) Section 200, *Substance Over Form*.

Section 630***BONDS, STOCKS, AND OTHER TEMPORARY INVESTMENTS***

- .01 *Bonds, stocks, and other temporary investments held by a registered political party at the end of a period should be valued at the lower of cost and market value and reported on Line 120 of the Statement of Assets, Liabilities and Surplus (Form 920).*
- .02 The cost of bonds, stocks, or other temporary investments means the amount of money that is exchanged, or amount of liability incurred, for the investment, including commissions paid or payable.
- .03 For the purposes of this section, the market value of bonds, stocks, or other temporary investments means the amount of money that an independent third party would be willing to exchange for the investment, as of the reporting date.
- .04 *If a bond, stock, or other temporary investment has been written down to market value, it should never be written up again.*
- .05 A candidate or a leadership contestant will not normally hold bonds, stocks, or other temporary investments due to the short-term nature of a candidate's activities and reporting period.

Section 640***INVENTORY***

- .01 *Inventories of goods and supplies should be reported on Line 120 of the Statement of Assets, Liabilities and Surplus (Form 922 and Form 947) and Line 130 of Form 920 at the end of the period and are to be valued at cost. Inventories do not include capital assets.*
- .02 **Cost** means the amount of money that is exchanged, or amount of liability incurred, for an item of inventory, including duties, freight and other amounts, and is usually directly supported by an invoice or other record. Inventory that is contributed without charge is a donation in kind. For contributed inventory, or for inventory purchased at less than market value, cost is considered to be market value at the date of the contribution, or at the time of purchase. Where inventory is purchased at less than market value, the amount by which market value exceeds the purchase price is a donation in kind.
- .03 *Only goods and supplies that have not been used during an election period are to be included in ending inventory. Inventory that has not been used but is considered to have no future economic benefit (for instance, at the end of a candidate's campaign where the candidate is not expected to run again) should not be written off as an expense but instead should be reported as in paragraph .01.*
- .04 For example, signs and supports that are on hand at the end of an election period but were not used during this period are to be counted and included in inventory. Those same signs and supports, assuming they were never going to be used again, would be treated in exactly the same manner even though they could be considered to be obsolete inventory in the business sense. Signs and supports that are on hand at the end of an election period and were used during the election are not to be included in inventory. Instead, they would be recorded as an election expense.

COUNT INVENTORY AT BEGINNING OF CAMPAIGN PERIOD (WRIT DAY)

- .05 Beginning inventory is comprised of goods and supplies held by a registered political party or candidate at the commencement of the campaign period and may or may not have been used during a previous election. The value of beginning inventory directly impacts the amount of election expenses reported, and therefore should be counted and valued prior to the start of activity. Where beginning inventory is used during an election period and it has not been used previously, its value becomes an election expense eligible for reimbursement. Where beginning inventory is

used during an election period and it has been used previously, its value becomes a donation in kind expense not eligible for reimbursement.

- .06 *Beginning inventory should be counted, valued at cost, and recorded in the accounts of a registered political party or candidate, as its use throughout an election period will directly impact the recording of amounts in the financial statements of the party or candidate. For leadership contestants there should be no beginning inventory since they are not permitted to receive contributions or incur expenses until the leadership contest is announced. Where a direct record of the cost of an item in beginning inventory is not available, such as in the case of a donation in kind where the source of the goods or supplies is not the registered political party or candidate, the market value, as defined under the EFA, of the item at the time of the contribution should be used to value beginning inventory.*

COUNT INVENTORY ON ELECTION DAY

- .07 *Inventory should be counted as of 8 p.m. (or shortly thereafter) on election day and should be valued, based on its cost, and excluded from the amount reported as expenses (election and non-election). See paragraph .02 for definition of cost.*
- .08 The value of ending inventory directly impacts the amount of election expenses reported. Inventory is usually comprised of signs and supports, banners, pamphlets, and posters, but would include any item that was acquired for use during an election, but ultimately not used.
- .09 *Goods and supplies that have been used, and which qualified as election expenses or have been reported on a prior financial statement as an expense, are excluded from ending inventory.*

COUNT INVENTORY AT END OF CANDIDACY PERIOD

- .10 *Inventory should be counted once again at the end of the candidacy period if inventory has been used since the count on election day.*

KEEP INVENTORY ON HAND AFTER REPORTING DATE

- .11 *Inventory should be kept on hand for purposes of later verification, if necessary, by Elections Manitoba. Inventory may be disposed only after written authorization by Elections Manitoba.*

Section 650***CAPITAL ASSETS***

- .01 Capital assets, most commonly known as land, buildings, and equipment, are assets that are used for more than one period (i.e., are long-term in nature), are usually of a significant value in relation to the value of other assets, and are not inventory. Specifically, capital assets:
- (a) are purchased or constructed by an entity for use by the entity;
 - (b) have been purchased or constructed by an entity with the intention of being used on a continuing basis; and,
 - (c) are not intended for sale in the ordinary course of activities of an entity.

COST

- .02 The cost of a capital asset is the amount of money that is paid or payable to purchase or construct a capital asset, including any other significant amounts paid or payable that are necessary to allow the asset to be used (e.g., installation costs, consulting fees, legal fees, engineering fees).
- .03 In addition, the amount of money paid or payable to increase the life of a capital asset would be included in the cost of that asset. For example, the repair to a building with structural damage that cannot be used unless the repair is completed would be an example of an event that has increased the life of the capital asset.
- .04 A contributed capital asset is a donation in kind. For a contributed capital asset, cost is deemed to be market value at the date of the contribution. A capital asset constructed by an entity might include contributed materials or labour, both of which would be categorized as donations in kind, and valued at market value at the date of contribution.
- .05 Where the amount of money that is paid or payable to purchase or construct a capital asset is less than its market value, the difference between the market value of the capital asset and the money paid or payable is a donation in kind contribution.

CAPITAL ASSETS PURCHASED BY A REGISTERED POLITICAL PARTY

- .06 *The cost of capital assets purchased or constructed by a registered political party may be recorded as:*
- a) an expense on Line 585 of Schedule 1 – Expenses (including Donations in Kind) (Form 920) or*

b) *an asset on Line 140 of the Statement of Assets, Liabilities and Surplus/(Deficit) (Form 920).*

.07 *Where a capital asset is disposed of by way of sale during a non-election period, the amount of money received on disposal is reported on Line 360 of the Statement of Income and Expenses (Form 920) where the capital asset had previously been expensed in accordance with Paragraph .05. Otherwise, a gain or loss on sale should be reported on Line 360.*

CAPITAL ASSETS PURCHASED FOR USE IN AN ELECTION

.08 *A candidate's activities are generally short-term in nature, encompassing only the events during the candidacy period in the year of an election. The same is true for a leadership contestant. In contrast to the ongoing activities of a registered political party, the activities of a candidate or a leadership contestant have a definite ending period and the candidate or a leadership contestant, therefore, should not be viewed as a going concern. Further, the value of capital assets purchased or constructed by a candidate or a leadership contestant, and remaining in the possession of the candidate or a leadership contestant at the end of the respective reporting period, will have no future value for EFA purposes and should be written off (as a non-election expense in the case of a candidate).*

.09 *A reasonable portion of the cost of capital assets purchased or constructed for the **sole purpose of an election**, and **used specifically for an election during the election period**, should be reported as an election expense:*

a) *for a candidate, on either Line 525 or Line 540 of Schedule 1 – Candidacy Period Expenses (Form 922) or*

b) *for a registered political party, on Line 520 or Line 545 of Schedule 1 – Election Expenses Including Donations in Kind (Form 921).*

.10 *A reasonable portion, for the purposes of the EFA and this section, is the market value of the amount of money that would be charged for the rental of a similar asset over a similar period.*

.11 *The cost of these capital assets in excess of a reasonable portion should be reported:*

a) *for a candidate, as a non-election expense on Line 575 of Schedule 1 – Candidacy Period Expenses (Form 922) or*

b) *for a registered political party,*

- as a non-election expense on Line 585 of Schedule 1 – Expenses (Including Donations in Kind) (Form 920) **or**
 - as a capital asset on Line 140 of the Statement of Assets, Liabilities and Surplus/(Deficit) (Form 920).
- .12 Where a capital asset is disposed of by way of sale during an election period the amount of money received on disposal is reported:
- a) for a candidate, on Line 340 of the Statement of Income, Expenses and Transfers for the Candidacy Period (Form 922) or
 - b) for a registered political party, on Line 350 of the Statement of Income, Transfers and Election Expenses (Form 921).
 - c) for a leadership contestant, on Line 320 of the Leadership Contestant's Financial Statements and Supporting Schedules (Form 947)

Section 660**ACCOUNTS PAYABLE AND OTHER SHORT-TERM LIABILITIES**

- .01 *Accounts payable are recorded on Line 200 of the Statement of Assets, Liabilities and Surplus (Form 920) and on Line 200 of the same statement for Form 922 and Form 947 at the end of the period and should be valued at the amount of money expected to be disbursed to satisfy the liability. Form 922 also requires detailed information about accounts payable to be reported on Schedule 6. Other short-term liabilities are recorded on Line 210 of Form 920 and Line 230 of Form 922 and Form 947 and are to be valued on the same basis as accounts payable.*
- .02 Generally, amounts owing to suppliers for goods and services at the end of a period will be valued at the invoiced amount for such goods and services where there is a reasonable expectation that the liability will be paid from party, association, or candidate funds. However, in some instances, an account payable or other short-term liability may be in default, either fully or partially, or it may be evident from the financial position of the candidate's campaign that the liability will not be paid. In these cases, the amount in default or determined to be not payable, *may be* a donation in kind. Specifically, the amount forgiven or determined to be not payable *could be* reclassified as a donation in kind contribution that does not qualify for tax receipt, and the corresponding expense *could be* reclassified as a donation in kind expense that would not qualify for reimbursement as an election expense (in the case of an election period).
- .03 An account payable could be a donation in kind contribution where there was never any intent to pay the amount at the inception of the payable. Caution must be exercised where an amount payable to a supplier is in default, or unable to be paid, and the supplier is a prohibited contributor, such as a corporation or union, as default or forgiveness in this circumstance could result in a direct violation of the *EFA*. It is imperative that an account payable with a prohibited contributor, or any entity, be bona fide, and that the substance of the account payable reflects the intent of the transacting parties.
- .04 A reasonable expectation that a liability will be paid will depend on the facts of each circumstance and the exercise of judgment. For example, where a candidate has a deficit at the end of a candidacy period, and where the reimbursement of eligible election expenses will not be sufficient to satisfy the candidate's outstanding obligations, a reasonable expectation that all liabilities will be paid from candidate funds may not exist unless a specific and reasonable plan were in place for the purpose of settling remaining liabilities.

- .05 *The value of an account payable or other short-term liability that is in default, either fully or partially, or where reasonable expectation of payment does not exist, in certain circumstances could be categorized as a donation in kind, and would be subject to the applicable requirements for donation in kind contributions and expenses under the EFA.*

Section 670**LOANS PAYABLE**

- .01 A registered political party, constituency association, candidate or a leadership contestant may enter into a loan agreement for the purpose of borrowing funds to finance its activities. Cash proceeds received from a loan intended to be settled at a future point in time should be deposited into the party, association, candidate or leadership contestant bank account, and is not a contribution. However, the following limitations have been established regarding the lending/borrowing of funds by political entities:
- a) Candidates cannot lend to any person or organization (including their constituency association or party) money that has been raised for the purposes of an election;
 - b) A constituency association may only lend money to its nominated candidate or its registered political party;
 - c) The maximum period of any loan made to a provincial candidate, leadership contestant, registered political party, and/or constituency association (including refinancing loans) is 24 months; and
 - d) No person or organization shall, in a single year, provide a loan to a political entity in excess of \$3,000.

It should be noted that limitations 3 and 4 above are not applicable to loans made from financial institutions, registered political parties, or constituency associations.

DEEMING PROVISIONS

- .02 The *EFA* sets out certain provisions that may deem loan proceeds received to be contributions, and where tax receipts may not be issued. Where a loan remains unpaid six months after becoming due and legal proceedings to recover the loan have not been commenced by the creditor, the amount of the loan is deemed to be a contribution, unless the creditor is a financial institution. Refer also to paragraph .04 for exceptions to this rule. In addition, where the terms of a loan do not appear to be on a commercial basis, such as where an excessive length of time exists before settlement of the loan is required, if at all, the proceeds received may instead be deemed a contribution.
- .03 Similarly, a loan at a rate of interest that is less than the prime rate of the government's principal banker at the time the rate of interest on the loan was set, will result in a deemed contribution equal to the difference between the amount of interest that would be payable at that prime rate and the amount being charged for the loan.

- .04 The *EFA* sets out similar provisions where a loan is between two non-arm's length entities. Non-arm's length entities, **for the purposes of this section**, means between and amongst a registered political party, a constituency association, or a candidate. However, a candidate's campaign cannot lend money to a constituency association or to a registered political party. Generally, a cash loan from a party or association to a candidate is a transfer, **unless** the terms of the loan are comparable to terms that would have been agreed upon had the loan been between arm's length persons (i.e., at market). In addition, a loan that remains unpaid after twelve months between non-arm's length entities is deemed to be a transfer, rather than a contribution.
- .05 In addition, a loan between non-arm's length entities at a rate of interest that is less than the prime rate of the government's principal banker at the time the rate of interest on the loan was set, will result in a deemed transfer equal to the difference between the amount of interest that would be payable at that prime rate and the amount being charged for the loan.
- .06 In certain circumstances, the settlement or partial settlement of a loan in the name of a registered political party, constituency association, or candidate may be performed by someone other than the party, association, or candidate. The amount of the settlement in this case would be deemed to be a contribution, unless the payment was made by a party, association, or candidate. In that case, it would be deemed to be a transfer.
- .07 Caution must be exercised where a loan payable is settled by a third party, and the third party is a prohibited contributor, such as a corporation or union, as settlement in this circumstance will result in a direct violation of the *EFA*. Caution must further be exercised where any of the deeming provisions are triggered, as the *EFA* could be violated with respect to prohibited contributors, in any of these instances.
- .08 *Loans payable should be reported on Line 220 of the Statement of Assets, Liabilities and Surplus (Form 920) or on applicable Line 210 or 220 of the same statement for Form 922 and Form 947 at the end of the period and should be valued at the amount of money expected to be exchanged to settle the liability. Where a reasonable expectation of settlement of a loan payable within six months of being due does not exist, the amount of the loan should be deemed to be a contribution.*
- .09 *Where a reasonable expectation of settlement of a loan payable between non-arm's length entities (as defined in paragraph .04 of this section) within twelve months of being due does not exist, the amount of the loan should be deemed to be a transfer.*

- .10 A reasonable expectation that a loan payable will not be paid will depend on the facts of each circumstance and the exercise of reasonable judgment. For example, where a candidate has a deficit at the end of a candidacy period, and where the reimbursement of eligible election expenses will not be sufficient to settle the candidate's loan payable, a reasonable expectation that loans payable will be paid from candidate funds would not exist, unless a specific and reasonable plan were in place for the purpose of settling remaining loans.

DOCUMENTATION

- .11 *A loan payable must be evidenced by a written loan agreement that details the particulars of the loan and must be filed with the financial statement to which the loan relates.*

Section 680***SURPLUS/DEFICIT*****REGISTERED POLITICAL PARTY**

- .01 On the Statement of Assets, Liabilities and Surplus/(Deficit) (Form 920), surplus represents the accumulated balance of income less expenses arising from the activities of a registered political party, or, in simpler terms, total assets less total liabilities. Deficit is used to describe the balance when the accumulation is a negative figure.
- .02 On the Statement of Income, Expenses and Transfers (Forms 920, 921), surplus represents the excess of income over expenses for the period, while deficit represents the excess of expenses over income.

CANDIDATE

- .03 On the Statement of Assets, Liabilities and Surplus/(Deficit) (Form 922 and Form 947), surplus represents income less expenses arising from the activities of a candidate's campaign, or, in simpler terms, total assets less total liabilities. Deficit is used to describe the balance when it is a negative figure.
- .04 On the Statement of Income, Expenses and Transfers (Form 922 and Form 947), surplus represents the excess of income over expenses for the period, while deficit represents the excess of expenses over income. For a candidate, the surplus or deficit reported in paragraph .03 will have the same value as that reported in this paragraph.
- .05 Within the context of reimbursement of election expenses of a candidate's campaign, surplus and deficit are defined under subsection 75(1) of the *EFA* and have a different meaning than that outlined in paragraph .03 and .04 of this section.

OTHER

- .06 Surplus and deficit is further described in the Statement of Assets, Liabilities and Surplus/(Deficit) (Form 920, Form 922, Form 947) by the nature of the activities that result in the surplus or deficit. For example, with respect to a registered political party's activities during an election year, Election Surplus/(Deficit) on Form 920 is descriptive as to the type of surplus that is to be reported. The general definition of "surplus", however, is not changed by the addition of these descriptive phrases.

Section 690***INCOME***

- .01 Income of a registered political party, constituency association, or candidate normally arises from contributions (including donations in kind), transfers received, fund raising functions, sale of merchandise, raffles, and investment income. The same is true for a leadership contestant except that a leadership contestant is not permitted to receive transfers.

CRITERIA FOR RECOGNITION

- .02 Depending on the type of income, different rules establish when it is proper to record or recognize the income in the accounts of a registered political party, constituency association, or candidate, and are described as follows:
1. *Income from contributions, transfers, fund raising functions, raffles and similar sources should be recognized in the accounting records when:*
 - a) *the income has been collected, or in the case of a donation in kind, received; and,*
 - b) *the income is not a prohibited contribution, as per the EFA.*
 2. *Income from investments in the form of interest or dividends should be recognized in the accounting records when:*
 - a) *it is likely that amounts will be collected or received; and,*
 - b) *the amount or value of the income can be determined.*
 3. *Capital gains or losses on the disposal of investments should only be recorded when the investment is sold.*
 4. *Income from the sale of merchandise should be recognized when:*
 - a) *title to, or effective control of, the goods has been transferred to the buyer;*
 - b) *it is likely that amounts will be collected or received; and,*
 - c) *the amount or value of the income can be determined.*
- .03 *A contribution that is received by a registered political party, constituency association, or candidate but not deposited because it is a prohibited contribution, and is returned within a reasonable period of time, is not a contribution for these purposes.*
- .04 *Specifically, interest income should be recognized on a time proportion basis (e.g., number of days or months over which interest is earned).*
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Dividends should be recognized when the party's, association's, or candidate's right to receive payment is established. A candidate or a leadership contestant will not normally hold bonds, stocks, or other temporary investments due to the short-term nature of a candidate's or a leadership contestant activities and reporting period, and therefore this paragraph may not be applicable to a candidate or a leadership contestant.

- .05 Investment income is not a contribution under the *EFA*.

TIMING OF CONTRIBUTIONS

- .06 The timing of when a contribution is recognized could have a significant impact on an individual's compliance with the \$3,000 contribution limit, especially in instances where a contribution is "in-transit" at the time a new calendar year arrives.
- .07 The date of contribution is the date of payment by a contributor. Generally, the date of payment is the date that a contribution is delivered to an entity (i.e. a registered political party, candidate, constituency association, or leadership candidate) or an entity's recognized agent. This general rule will not apply in the following circumstances:
- a) in the case of a post-dated cheque, the cheque date is the date of the contribution;
 - b) in the case of a cheque that has been mailed and that is not post-dated, the contribution date would be the date that the contribution was delivered and processed by Canada Post (as evidenced by postmark date); and,
 - c) in the case of a cheque that has been couriered and that is not post-dated, the date of the contribution would be the date the cheque was provided to the courier.
- .08 *In general, the collection of contribution income occurs on the date of payment, being the date that the contribution is delivered to a entity (i.e. a registered political party, candidate, constituency association, or leadership candidate) or an entity's recognized agent.*

PROHIBITED CONTRIBUTIONS

- .09 There may be circumstances where a prohibited contribution has been accepted but the recipient does not know that the contribution is prohibited until after the reporting period. In this circumstance, upon returning the contribution in the following period, the amount should be reported as an expense on Line 585 of Schedule 1 – Expenses (Including Donations in Kind) (Form 920) with an explanation of what the item represents (i.e., return of a prohibited contribution).

GENERAL REPORTING

- .10 *Income of a registered political party, constituency association, candidate or a leadership contestant during a period should be reported, by type, on the applicable line of the Statement of Income, Expenses and Transfers (Forms 920, 921, 922, 947), once the related criteria for recognition have been satisfied.*
- .11 *Gross fund raising income and proceeds from sale of merchandise should be reported separately from the expenses of the fund raising activities (i.e., fund raising income should not be reported as one item, net of expenses) and cost of merchandise sold respectively.*

DOCUMENTATION

- .12 *The timing of contributions collected, the name of the contributors, and the contribution amounts have significant relevance with respect to the provisions of the EFA.*
- .13 *For this reason, a registered political party, constituency association, candidate or a leadership contestant should maintain an accounting and record-keeping system that documents all pertinent information regarding all contributions, and would include:*
 - a) a contributor's full name and middle initial(if any);*
 - b) a contributor's Manitoba residential address and postal code;*
 - c) the date of the contribution (as described in paragraphs .06 to .08)was collected or received;*
 - d) the name of the individual serving as the collector (if applicable);*
 - e) the amount of the contribution;*
 - f) where a contribution is a donation in kind, documents supporting the market value of the donation in kind; and,*
 - g) The signature of all contributors providing cash in excess of \$100.*

Section 695***EXPENSES***

- .01 *Expenses incurred during a period to support the activities of a registered political party, constituency association, candidate or a leadership contestant should be reported on the applicable line of the Statement of Income, Expenses and Transfers (Form 920, 921, 922, 947).*
- .02 Expenses are further categorized as either election or non-election expenses. Due to the various financial limits placed on a party, association, or candidate during an election period, and the mechanism for reimbursement by the Minister of Finance for certain election expenses, it is imperative that it be understood under what circumstances an expense should be categorized as an election or non-election expense.
- .03 *The definition of election expenses under the EFA, along with any guidance provided by Elections Manitoba, should be reviewed and clearly understood by the chief financial officer, financial officer, or official agent and any others involved in the reporting process.*
- .04 Essentially, only the value of goods or services used or consumed during an election period are election expenses that may be eligible for reimbursement. Value, in this case, means the amount of money spent, the amount of liabilities incurred, or the market value of donations in kind accepted. For example, money spent prior to or after an election period for goods or services used in an election period, would be election expenses.
- .05 An expense, or a portion of an expense, for goods or services used or consumed during an election period should be allocated as an election expense on a reasonable basis. A reasonable basis for determining the amount or partial amount of an expense that was used or consumed during an election period is a matter of judgment, but could include:
- a) time that a good or service was used, such as number of days or hours that it was provided;
 - b) specific identification such as number of advertising spots aired during a period; or,
 - c) estimate of use of a good or service, such as number of kilometers multiplied by a reasonable charge for fuel per kilometer.
- .06 *An expense, or portion thereof, should be allocated as an election expense on a basis that is supportable and reasonable in the circumstances.*
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DOCUMENTATION

- .07 The allocation and classification of expenses as election or non-election expenses, and further as transfers, donations in kind, or regular expenses, is necessary in meeting the requirements of the *EFA*. It is imperative, then, that a system be in place that accumulates information that will allow the allocation of these expenses into their components, and subsequently provides support for the allocation. Information that may be accumulated as support would include, but would not be limited to, documentation of reasons, rationale, analysis, and calculations.
- .08 *The accounting and record-keeping system of a registered political party, constituency association, candidate or a leadership contestant should accumulate information that provides for an appropriate allocation of expenses and supporting documentation.*