

SECTION PS 1300

government reporting entity

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving the new CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING.

- .03 FINANCIAL STATEMENT OBJECTIVES, Section PS 1100, states that government financial statements should provide an accounting of the full nature and extent of the financial affairs and resources that the government controls, including those related to the activities of government agencies and enterprises. This Section also states that those financial statements are a principal means by which a government demonstrates its accountability for the financial affairs and resources entrusted to it and should provide information useful in evaluating a government's performance in the management of its financial affairs and resources.
- .08 Control is the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of the 2018-2019 annual improvements.

- .01 This Section defines the scope of the government reporting entity in terms of the organizations whose financial affairs and resources would be included in government financial statements and establishes standards on how to account for and disclose those organizations in government financial statements. It also establishes standards on how to account for and disclose portfolio investments and trusts under administration.
- .02 The standards are intended to apply to the financial statements of the federal, provincial, territorial and local governments. Each of these governments is a separate financial reporting entity and would be excluded from the financial reporting entity of any other government.
...
- .04 Governments carry out their policies and deliver services through various organizations. Some organizations, such as departments or ministries, are integral to the operations of the government. These organizations carry out government operations, provide services for government and receive all or most of their operational direction from government.
- .05 Other organizations, such as boards, commissions and Crown corporations, have broader financial powers and operational authority delegated to their management under legislation. They generally have more discretion in establishing their systems and practices and are not bound by all of the directives and guidelines that apply to ministries or departments. Some of these organizations are enterprises whose principal activity is carrying on a business.
- .06 These organizations may prepare separate financial statements that constitute important accountability reports. Financial statements for the government reporting entity as a whole are prepared to provide an understandable overview of the full nature and extent of the financial affairs and resources which the government controls.
...
- .12 Control does not stem simply from the government having constitutional responsibility, but rather from the nature of the relationship between the government and the organization. For example, where a government has constitutional responsibility for health care, the government may choose to deliver those services through a controlled organization, such as a government department, or through an independent contractor. Constitutional responsibility does not mean that the government controls the entities that are used in delivering the services.
...

ACCOUNTING FOR GOVERNMENT ORGANIZATIONS

- .25 Reporting on a consolidated basis presents summary information that aggregates the individual financial statements of organizations comprising a reporting entity. Consolidation is a method of accounting that combines the accounts of those organizations line-by-line on a uniform basis of accounting and eliminates inter-organizational balances and transactions. The mechanics of preparing government consolidated financial statements are outlined in BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, and ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510.
- .25A A **governmental unit** is a government component, government not-for-profit organization or other government organization.

- .26 Consolidation is the most appropriate method of accounting for organizations integral to the overall operations of government in directly performing its executive function. Such organizations include, for example, government departments, funds and government organizations that exist primarily to provide services to government.
- .27 *Government financial statements should consolidate the financial statements of governmental units comprising the government reporting entity.* 2 [Former paragraph PS 1300.27 retained in Archived Pronouncements.] [JUNE 1996 *]
- .28 A government business enterprise is an organization that has all of the following characteristics:
- (a) it is a separate legal entity with the power to contract in its own name and that can sue and be sued;
 - (b) it has been delegated the financial and operational authority to carry on a business;
 - (c) it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and
 - (d) it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.
- ...
- .32 A government business enterprise differs from other government organizations in its relationship to the government, and its objectives, and operations. A government enterprise represents a financial asset of the government and given its autonomy, business-oriented objectives, and financial self-sufficiency, equity accounting is appropriate.
- .33 Accounting for a government business enterprise by the equity method avoids commingling the independently-managed business enterprise's budget and actual results with those of other government organizations on a line-by-line basis. It also avoids including the business enterprise's gross debt with that of other government organizations as the business enterprise is expected to repay that debt from its own revenues.
- ...
- .39 *Government financial statements should disclose, in notes or schedules, a listing of the major organizations comprising the reporting entity, separately identifying those that are consolidated and those that are accounted for by the modified equity method.* [SEPT. 1997]
- .40 *Trusts administered by a government or government organization should be excluded from the government reporting entity.* [JUNE 1996]
- ...
- .42 To meet the definition in paragraph PS 1300.41, the property conveyed or assigned to the government or government organization acting as a trustee, must be provided to fulfill a particular objective of the donor of the property conveyed or assigned. The government or government organization would merely administer the terms and conditions embodied in the agreement and has no unilateral authority to change the conditions set out in the trust indenture. For this reason, the assets and activities of the trust are excluded from the government's reporting entity.
- .43 A government or government organization acts as trustee when it administers trusts on behalf of the beneficiaries specified in the agreement or statute. As trustee, the government is accountable to third parties for the use and disposition of trust assets and for the funds derived from those trust activities. Trust assets are not owned by the Crown in right of Canada, a province or territory, or by a local government, and should not be included in the government reporting entity.
- .44 *Government financial statements should disclose, in a note or schedule, a description of trusts under administration by a government or government organization, and a summary of trust balances.* [JUNE 1996]
- .45 To acknowledge and report on the magnitude of trusts administered by a government or government organization, a note or schedule to government financial statements would describe the trust assets under administration and would set out a summary of trust balances.
- ...
- .47 This Section applies to fiscal years beginning on or after April 1, 2005. However, when a government organization that was not included as part of the government reporting entity in the financial statements of the previous fiscal year is newly included and the government organization has all of the characteristics set out in paragraph PS 1300.49, a government may choose to include the government organization in the financial statements on a modified equity basis, rather than fully consolidating, from the date of initial application until fiscal years beginning on or after April 1, 2009. For fiscal years beginning on or after April 1, 2009, a government fully consolidates these government organizations, in accordance with paragraph PS 1300.27. Earlier adoption is encouraged (see Appendix A, which is intended to assist in applying the transitional provisions).

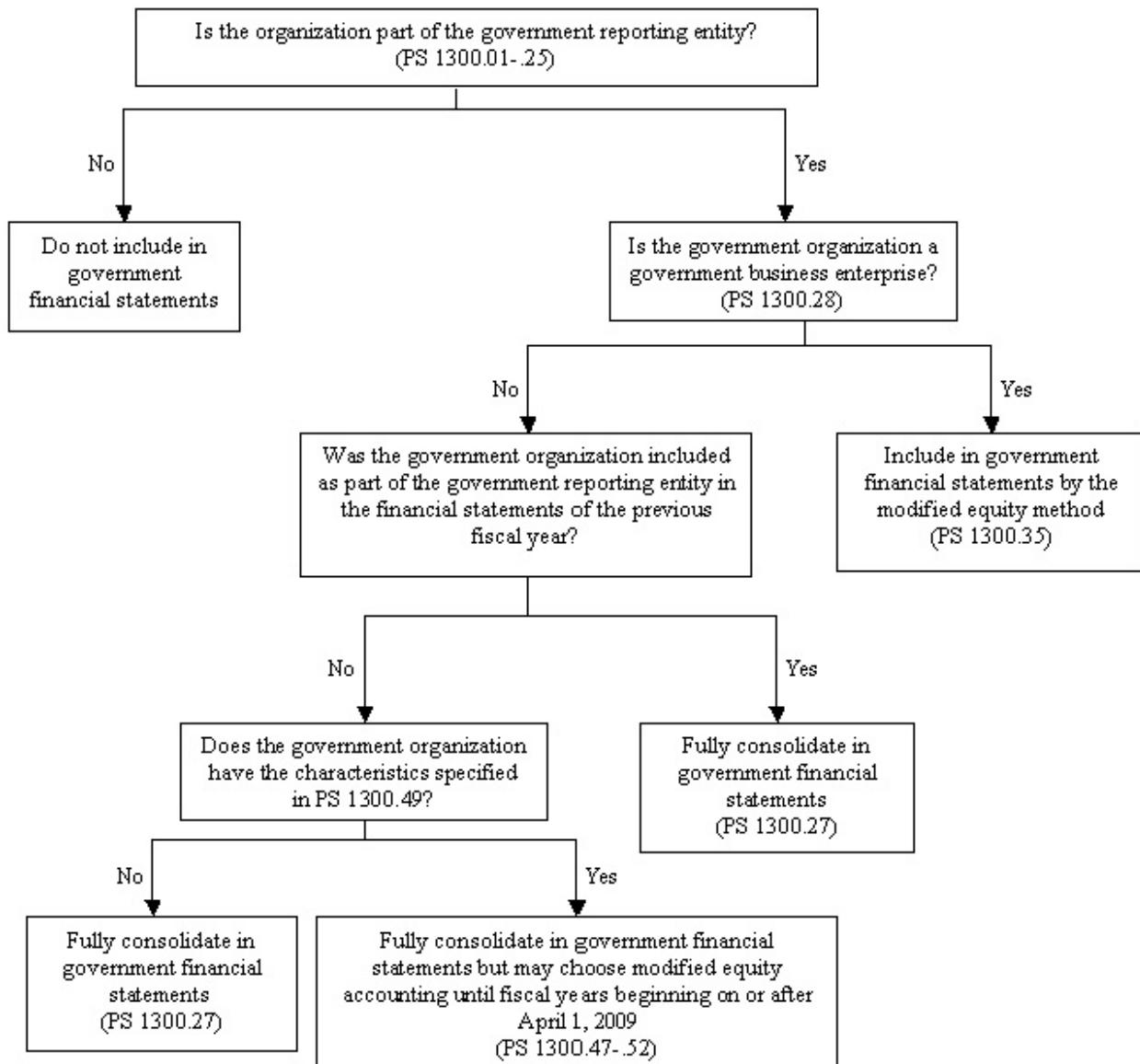
Characteristics of government organizations that are eligible for the transitional provisions

- .48 There are certain government organizations that meet the control criteria for inclusion in the government reporting entity, established in paragraphs PS 1300.18-19, yet exercise considerable local responsibility and decision making. The government's governance is focused on providing global funding, defining standards and reviewing / assessing program outcomes. For these government organizations, the transitional provisions of paragraph PS 1300.47 apply.
- .49 Government organizations eligible for the transitional provisions have all of the following characteristics:

- (a) they are separate legal entities with the power to contract in their own name, and that can sue and be sued;
 - (b) they have the financial and operational authority to provide a government service within a defined service area;
 - (c) there is a governance framework of appointed or elected local board representatives from the defined service area; and
 - (d) there are significant restrictions on the government's ability to access their assets.
- .50 These government organizations generally have a significant level of autonomy in carrying out the services they provide. Often they interact regularly with the service recipients and are viewed by these recipients as being responsible for the service. At a localized level, these government organizations have considerable discretion with respect to day-to-day operations, although they are controlled by the government. Local decision making is generally reinforced through a strong local board that is responsible to its stakeholders and clients.
- .51 These government organizations are often part of a group of geographically dispersed similar organizations that provide services within the jurisdiction as part of the same overall government program. Government support provided to these government organizations may be based on funding formulae whose application is shared by other local jurisdictions for the same service. These government organizations have similar objectives and responsibilities, and normally operate under a comprehensive senior government legislative framework.
- .52 Generally, the assets of these government organizations cannot be used for other government purposes and may not revert to the government even on dissolution of the organization. For example, the government's access may be restricted to repayment of government capital grants on asset disposal. There is no expectation that government can directly access the assets without the co-operation of the local authority or board.

APPENDIX A

APPLYING THE TRANSITIONAL PROVISIONS



SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended substantially as a consequence of issuing REVENUE, Section PS 3400.

- .29 Selling goods and services involves a direct exchange relationship between the revenues and the goods and services provided. Selling prices are related to the quantity and quality of goods or services sold, and not just to the recovery of administrative costs. Imposed fees and penalties, such as licenses and fines, do not represent sales of goods and services. Insurance premiums charged by a government organization are a sale of a service and not an imposed fee.
This supplement sets out the previous wording of paragraphs that have been amended substantially as a consequence of approving PORTFOLIO INVESTMENTS, Section PS 3041, and FINANCIAL INSTRUMENTS, Section PS 3450.
 - .37 ♦ *Government financial statements should account for portfolio investments by the cost method.* [MARCH 1999]
 - .38 Governments may invest in organizations that do not form part of the government reporting entity. Such long-term investments are called portfolio investments and would be accounted for by the cost method in accordance with PORTFOLIO INVESTMENTS, Section PS 3040.
- Note: Refer also to Handbook Revisions Release no. 34 (June 2011) and no. 35 (March 2012) for a complete listing of amendments related to the issuance of PORTFOLIO INVESTMENTS, Section PS 3041, and FINANCIAL INSTRUMENTS, Section PS 3450.

Footnotes

2. In those circumstances where a non-controlling interest exists in a government organization that is not a government business enterprise, the organization would be included in the government's financial statements on a proportionate consolidation basis in accordance with ADDITIONAL AREAS OF CONSOLIDATION, paragraphs PS 2510.05-.10.

* Editorial change — December 2014.

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