

## SECTION PS 3160 public private partnerships

TABLE OF CONTENTS	Paragraph
<b>Purpose and scope</b>	.01-.04
<b>Definitions</b>	.05
<b>Recognition of infrastructure asset</b>	.06-.21
Control	.10-.21
Purpose and use	.10-.13
Access to future economic benefits	.14-.17
Residual interest	.18-.21
<b>Recognition of a liability</b>	.22-.25
Combined consideration	.25
<b>Initial measurement</b>	.26-.38
Infrastructure asset	.26-.35
Constructed or acquired infrastructure asset	.26-.34
Betterments to existing infrastructure	.35
Liability to acquire or construct the infrastructure asset	.36-.38
<b>Subsequent measurement</b>	.39-.63
Asset	.39-.46
Betterments	.43-.45
Operating and maintenance expenses	.46
Liability	.47-.62
Financial liability model	.49-.58
Discount rate	.55-.58
User-pay model	.59-.62
Performance obligation	.61-.62
Modifications to contractual terms and takeover rights	.63
<b>Presentation and disclosure</b>	.64-.72
Disclosure	.65-.72

<b>Effective date and transitional provisions</b>	.73-.74
<b>Decision tree – scope of applicability</b>	Appendix A
<b>Illustrative examples</b>	Appendix B

## PURPOSE AND SCOPE

- .01 This Section establishes standards on accounting for public private partnerships between public and private sector entities where the public sector entity procures infrastructure using a private sector partner. The private sector partner's obligations include requirements to:
- (a) design, build, acquire or better new or existing infrastructure;
  - (b) finance the transaction past the point where the infrastructure is ready for use; and
  - (c) operate and/or maintain the infrastructure.
- .02 Public private partnerships are an alternative finance and procurement model available to public sector entities to design, build, acquire or better infrastructure. The term "infrastructure" typically includes items such as tangible capital assets (i.e., complex network systems per TANGIBLE CAPITAL ASSETS, Section PS 3150) but may also include items that are intangible in nature. Intangible assets acquired as part of a private partnership arrangement are considered purchased intangibles as defined in PUBLIC SECTOR GUIDELINE, PSG-8, Purchased Intangibles.
- .03 This Section applies to public private partnerships:
- (a) between a public sector entity and a private sector partner for infrastructure-project delivery;
  - (b) with risk allocation that provides for public sector control of the asset at any point during the arrangement; and
  - (c) in which the private sector partner satisfies all of the obligations described in paragraph PS 3160.01.
- .04 This Section does not apply to 1
- (a) traditionally procured infrastructure where the public sector entity controls the asset and bears the associated construction and financial risks, which is accounted for in accordance with TANGIBLE CAPITAL ASSETS, Section PS 3150;
  - (b) leased infrastructure that does not satisfy the criteria for recognition of an infrastructure asset as part of a public private partnership arrangement, 2 which is accounted for in accordance with PSG-2, Leased Tangible Capital Assets;
  - (c) operating and maintenance arrangements with a private sector partner where it is not necessary to design, build, acquire, better or finance public infrastructure as part of the arrangement. The definition of expenses in the Conceptual Framework for Financial Reporting in the Public Sector (the Conceptual Framework) would apply to such arrangements;
  - (d) write-downs of infrastructure, which are covered in Section PS 3150;
  - (e) public private partnerships where there is no financing required by the private sector partner past the point where the infrastructure is ready for use; and
  - (f) accounting for and reporting a public sector entity's interest in a partnership where the partners co-operate toward achieving significant, clearly defined common goals, which are covered in INTERESTS IN PARTNERSHIPS, Section PS 3060.

[Former paragraph PS 3160.04(c), amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]

## DEFINITIONS

- .05 The following terms are used in this Section with the meaning specified:
- (a) **Predetermined service payments** refer to the availability payments, unitary payments or any other predetermined set of payments specified in a public private partnership arrangement involving financial consideration. These scheduled payments would be made by the public sector entity to the private sector partner. They would reflect the costs of the infrastructure asset, planned betterments, financing, operating and/or maintenance costs, as applicable. These payments may or may not be separated into their respective components representing the different aspects of the agreement.
  - (b) The **implicit contract rate** is the cost of financing that the private sector partner is charging the public sector entity in the public private partnership. This is the discount rate that causes the aggregate present value of the capital portion of the predetermined service payments to be equal to the value of the infrastructure asset, upon initial measurement.
  - (c) The **financial liability model** refers to a type of public private partnership arrangement where the private sector partner designs, builds, finances, operates and/or maintains infrastructure in exchange for a contractual right to receive cash or other financial assets. A liability resulting from this model is a financial liability.<sup>3</sup>
  - (d) The user-pay model refers to a type of public private partnership arrangement where the private sector partner designs, builds, finances, operates and/or maintains infrastructure in exchange for a right to charge end users. The public sector entity compensates the private sector partner by granting rights to earn revenue from third-party users or access

to another revenue-generating asset. A liability resulting from this model is a non-financial performance obligation and a non-financial liability.<sup>4</sup>

[Former paragraph PS 3160.05, including former footnotes 3 and 4, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

### **RECOGNITION OF INFRASTRUCTURE ASSET**

- .06 *A public sector entity should recognize infrastructure, or a betterment to infrastructure, as an asset where, through the terms and economic substance of the public private partnership the public sector entity controls:*
- (a) *the purpose and use of the infrastructure;*
  - (b) *access to the future economic benefits and exposure to risks of the infrastructure asset; and*
  - (c) *significant residual interest in the infrastructure, if any, at the end of the public private partnership's term.* [APRIL 2023]
- .07 Infrastructure assets are accounted for in accordance with TANGIBLE CAPITAL ASSETS, Section PS 3150. Infrastructure identified in a public private partnership arrangement is accounted for as an asset when it meets the definition of an asset and can be measured in a faithfully representative way in accordance with the general recognition criteria in the Conceptual Framework. [Former paragraph PS 3160.07, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .08 Infrastructure identified in a public private partnership arrangement meets the definition of an asset for the public sector entity when all of the following are met:
- (a) The public sector entity expects to benefit from the use of the service capacity of the infrastructure to provide goods and services and is exposed to the risks. Infrastructure that the public sector entity contracts to have delivered through the arrangement will be provided by the private sector partner. The future economic benefits related to the infrastructure will be realized by the public sector entity over the useful life of the infrastructure, in conjunction with any realized risks.
  - (b) Through the terms of the arrangement, the public sector entity controls the infrastructure, access to the related future economic benefits, and exposure to the risks. The terms specify:
    - (i) the purpose and use of the infrastructure;
    - (ii) who may access the infrastructure;
    - (iii) its related future economic benefits; and
    - (iv) any significant residual interest in the infrastructure that exposes the public sector entity to the risks associated with the asset.
  - (c) The signed and executed public private partnership agreement comprises the past event that gives control of the infrastructure to the public sector entity.
- .09 Normally, the terms of the public private partnership result in the recognition criteria in paragraph PS 3160.08 being met over the construction period. When this occurs, the public sector entity recognizes the infrastructure over that period. In contrast, a public sector entity would defer recognition until substantial completion of the infrastructure asset when the recognition criteria are met at the end of the construction period. An example of this would be if the public sector entity is not exposed to the risks of completing the project even when the private sector partner fails to complete construction.
- Control**
- Purpose and use**
- .10 Controlling the purpose and use of the infrastructure means that the public sector entity determines what the infrastructure will be used for and what services it will provide. For example, when a private sector partner is engaged to build and maintain a building, a public sector entity would control the purpose and use of the building by requiring it to be a hospital and be used to deliver health care services.
- .11 Controlling the purpose and use of the infrastructure allows the public sector entity to benefit from the infrastructure through its capacity to provide goods and services.
- .12 The terms of the arrangement may also, in varying degrees, specify the nature, extent and quality of the services to be provided with the infrastructure and to whom. The terms may also restrict the infrastructure's use for anything other than the specified purposes or prevent the private sector partner from using other assets to fulfill its service obligation.
- .13 Other indicators of the public sector entity controlling the purpose and use of the infrastructure may include, but are not limited to, the public sector entity:
- (a) requiring the infrastructure fit within an existing public sector infrastructure network;
  - (b) assigning responsibility for the performance of the infrastructure; and
  - (c) participating actively in key operating activities assigned to the private sector partner.
- Access to future economic benefits**
- .14 The terms of the arrangement would determine the degree to which the public sector entity can deny or regulate access to the infrastructure and its benefits. For example, the public sector entity can deny or regulate access by controlling who has access to the public services provided, or the price of those services, or both.

- .15 Controlling access to the infrastructure includes limiting other parties from accessing the future economic benefits the infrastructure generates. For example, the public sector entity could control access to a student residence by requiring that tenants attend the institution with which it is associated. Mandating open and free public access may also be an indicator of the public sector entity's control of the infrastructure.
- .16 The degree to which the public sector entity may affect the service price (where applicable) is an important factor in determining if the public sector entity controls access to the future economic benefits and risks of the infrastructure asset. For example, if the public sector entity sets free access of the service through the public private partnership agreement, it would demonstrate the public sector entity has control over access to the future economic benefits and risks related to the infrastructure asset. On the other hand, if the public sector entity permits the private sector partner significant discretion over pricing the service, then other factors would have to be considered in determining whether the public sector entity controls access.
- .17 A public sector entity's regulation of an economic resource may not, in and of itself, constitute control of an asset. A public sector entity may establish the regulatory environment in an industry or sector in which an organization operates and thereby impose conditions or sanctions on its operations, consistent with ASSETS, paragraph PS 3210.23. For example, a provincial transportation ministry may have the authority to set quality and safety standards for all roads in the province. However, this authority does not constitute control of a specific road acquired through a public private partnership arrangement if the authority's interest extends only to the regulatory use of the economic resources and does not include controlled access to the future economic benefits related to the specific road. The determination of public sector entity control would therefore require additional assessment of control indicators specific to the road acquired through a public private partnership arrangement.  
[Former paragraph PS 3160.17, amended by 2022-2023 remaining annual improvements, retained in Archived Pronouncements.]
- Residual interest**
- .18 Control of significant residual interest, if any, indicates the public sector entity's exposure to benefits and risks associated with the economic resource beyond the term of the agreement.
- .19 Significant residual interest may exist at the end of a public private partnership arrangement in the form of an asset with service potential remaining or a liability that accrues to the public sector entity.
- .20 Factors to consider in determining whether residual interest exists may include the following:
- (a) The public sector entity legally owns or retains control of the land on which the infrastructure is located (e.g., a road built on a government-owned land).
  - (b) The infrastructure is integral to the public sector entity's operations or its existing infrastructure network (e.g., when a public private partnership road connects an existing series of publicly owned highways).
  - (c) The public sector entity will be responsible for liabilities and the ongoing maintenance related to the infrastructure even when the infrastructure itself has no service life remaining. Examples may include asset retirement obligations 5 or liabilities for contaminated sites. 6
  - (d) The public sector entity's control over any significant residual interest would restrict or deny the private sector partner's ability to sell or pledge the infrastructure.

- .21 Public private partnerships in the scope of this Section require the private sector partner to maintain and/or operate the infrastructure. While this transfers certain risks to the private sector partner during the public private partnership's term, in most cases the public sector entity continues to be exposed to risks associated with the residual interest at the end of the term.

#### **RECOGNITION OF A LIABILITY**

- .22 *When a public sector entity has recognized an infrastructure asset in relation to a public private partnership arrangement and has an obligation to provide consideration to the private sector partner, the public sector entity should recognize a liability.*  
[APRIL 2023]
- .23 The public sector entity recognizes a liability when it recognizes an infrastructure asset. The type of consideration provided to the private sector partner determines whether the public sector entity recognizes a financial liability (financial liability model) or a performance obligation that is a non-financial liability (user-pay model). This distinction is relevant for the subsequent measurement of the liability and classification of the liability for presentation purposes. [Former paragraph PS 3160.23, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]
- .24 The public sector entity would also be obligated to pay the private sector partner to operate and/or maintain the infrastructure as part of the public private partnership arrangement. This represents a contractual obligation of the public sector entity and would initially be disclosed in accordance with CONTRACTUAL OBLIGATIONS, Section PS 3390.

#### **Combined consideration**

- .25 A public sector entity's liability for the design, build, acquisition or betterment of infrastructure could result from a combination of the financial liability model and user-pay model. In such circumstances, the entity would recognize both a financial liability and a performance obligation.

#### **INITIAL MEASUREMENT**

##### **Infrastructure asset**

###### **Constructed or acquired infrastructure asset**

- .26 *A constructed or acquired infrastructure asset as part of a public private partnership arrangement should be initially recognized at the public sector entity's cost, which represents fair value at the date of recognition.* [APRIL 2023]
- .27 Initial measurement of an asset acquired in an exchange transaction is recognized at its cost. Where the costs of acquiring or constructing the infrastructure are both determinable and verifiable<sup>7</sup> from the public private partnership procurement process and contractual agreement, these amounts would be used to measure the asset cost. [Former footnote to paragraph PS 3160.27, amended by the 2024-2025 Annual Improvements, retained in Archived Pronouncements.]
- .28 Direct costs capitalized should be consistent with TANGIBLE CAPITAL ASSETS, Section PS 3150. The cost of constructed infrastructure would normally include direct construction or development costs (such as material and labour) and overhead costs directly attributable to the construction or development activity. The activities necessary to prepare infrastructure for its intended use encompass more than the physical construction of the infrastructure. The activities include the technical and administrative work before and during construction.
- .29 In a public private partnership arrangement, the private sector partner is compensated for assuming construction related risks, such as design risks, cost overrun risks, etc., that may not exist in traditional procurement models. Such costs related to the acquisition of the infrastructure asset would be included in the capital cost of the asset.
- .30 Where cost is neither determinable nor verifiable from the public private partnership process and agreement, cost is determined to be equal to the estimated fair value of the asset at the transaction date. TANGIBLE CAPITAL ASSETS, paragraph PS 3150.05(c), defines "fair value" as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act."<sup>8</sup> For the purposes of initially measuring an infrastructure asset acquired through a public private partnership arrangement under this Section, this definition is interpreted to mean the price a market participant would pay for an equivalent infrastructure asset with the same service potential and risk profile.
- .31 Some estimation techniques that may be considered in estimating the fair value of the infrastructure and separating the predetermined service payment (per paragraphs PS 3160.32-.33) under such circumstances include, but are not limited to:
- (a) independent market appraisals;
  - (b) estimates generated based on relevant past data or transactions; and
  - (c) quotes generated by other bidders.
- .32 The full cost of a public private partnership arrangement would be separated into infrastructure asset and operating (and/or maintenance) components. In some public private partnerships, it may be difficult to determine what portion of the predetermined service payments relate to the infrastructure asset and what portion relates to operating and/or maintenance costs. In such cases, separating predetermined service payments would require the public sector entity to allocate costs related to the infrastructure asset separately from costs related to operating and/or maintenance. Allocations would be determined using either:
- (a) A relative fair value approach. Where the fair values both infrastructure asset and operating and/or maintenance arrangement components are readily determinable, they are applied to the predetermined service payment based on their relative fair values, or;
  - (b) A residual arrangement value approach. Where the estimated fair value of only one arrangement component (either the infrastructure asset or service component) is readily determinable, the residual value of the predetermined service payment is allocated to the remaining arrangement component.
- .33 To determine the relative fair values of the infrastructure asset and of the service portion of the arrangement, an entity uses estimation techniques. These techniques must be appropriate in the circumstances. Sufficient data must be available to determine the asset cost and separate the predetermined service payments. The public sector entity maximizes the use of relevant and observable inputs and minimizes the use of unobservable inputs.
- .34 In rare instances a public sector entity may be unable to determine a reasonable estimate of fair value for an infrastructure asset acquired from a public private partnership arrangement. In such instances, the estimated fair value, and thus the recognized cost of the infrastructure asset, would be the present value of the capital portion of predetermined service payments, lump-sum payments and any progress payments using the discount rate guidance (paragraphs PS 3160.56-.58).<sup>9</sup>
- Betterments to existing infrastructure**
- .35 In some public private partnerships, the private sector partner is engaged to better and subsequently operate and/or maintain infrastructure the public sector entity already controls. Capital costs associated with the betterment of the existing infrastructure are added to the carrying value, less write-downs, if any, as required in TANGIBLE CAPITAL ASSETS, Section PS 3150.
- Liability to acquire or construct the infrastructure asset**
- .36 *A liability, recognized in relation to a public private partnership arrangement should be initially measured at the same amount as the related infrastructure asset, reduced for any consideration previously provided to the private sector partner.* [APRIL 2023]
- .37 In arm's length transactions, the consideration provided is equal to the value of the good or service received. When a liability is created as a result of the financial liability model and the user-pay model combined, the sum of the liabilities is equal to the cost of the asset(s) received by the public sector entity, which represents the asset's fair value.

.38 Additional consideration attributable to other components of the public private partnership agreement (such as operating and maintenance payments) are excluded from the measurement of the liability to acquire or construct the infrastructure asset.

#### **SUBSEQUENT MEASUREMENT**

##### **Asset**

.39 TANGIBLE CAPITAL ASSETS, Section PS 3150, also applies when accounting for infrastructure assets in periods subsequent to the initial recognition. The cost, less any residual value, of an infrastructure asset with a limited life is amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the public sector entity.

.40 In evaluating the asset's useful life, the public sector entity would consider performance requirements that specify the infrastructure asset be maintained at agreed-upon levels through the duration and at the end of the arrangement. Performance requirements would include scheduled improvements to the asset such that there is significant useful life remaining at the end of the arrangement.

.41 Infrastructure generates economic benefit to its users over its useful life, which may differ from the length of the public private partnership agreement. Public private partnerships often involve a commitment to perform ongoing operating and maintenance activities that may be required to keep the infrastructure asset at an appropriate standard of performance.

.42 For example, if the private sector partner is expected to fulfill its obligations to operate and/or maintain the infrastructure asset to a high standard, then the estimated useful life of the asset may be well beyond historical averages for that particular asset class. Alternatively, if the private sector partner does not perform its operating and/or maintenance obligations, the public sector entity would consider the effect of this on the asset's useful life, which would consequently affect the annual amortization charge.

##### **Betterments**

.43 Betterments, as defined in TANGIBLE CAPITAL ASSETS, Section PS 3150, are added to the carrying amount of the related infrastructure when the future economic benefits of the betterment are controlled by the public sector entity.

.44 When a public sector entity decides to record and account for specific components of infrastructure as separate assets, as per TANGIBLE CAPITAL ASSETS, paragraph PS 3150.12, betterments that increase the service potential of specific components of the infrastructure would be capitalized and amortized. For example, if the roof is scheduled to be replaced, the related costs would be capitalized as a part of the roof component and amortized over its useful life. Replaced components should be written off when new replacement components are capitalized in the period the items are replaced.

.45 When a public sector entity decides not to record and account for specific components of infrastructure as separate assets, improvements to the infrastructure would only be considered betterments if they increase the service potential of the infrastructure asset. 10 The assessment of the asset's useful life, considering scheduled operating and maintenance expenses and betterments, would affect the annual amortization charge.

##### **Operating and maintenance expenses**

.46 Operating and maintenance costs do not extend the service capacity of the asset. Therefore, such costs are expensed in a rational and systematic manner that best corresponds to the benefit received from the services being provided over the term of the service contract in a public private partnership arrangement.

##### **Liability**

.47 Under a public private partnership arrangement, a public sector entity transfers consideration to the private sector partner in exchange for infrastructure through any combination of the following:

- (a) cash or other financial assets (financial liability model); or
- (b) granting the private sector partner other rights (user-pay model).

.48 The primary difference between the financial liability model and the user-pay model is how the associated liability is settled. Financial liabilities are settled when the public sector entity delivers cash or another financial asset. Non-financial performance obligation liabilities are satisfied as the public sector entity fulfills its performance obligation under the public private partnership. [Former paragraph PS 3160.48, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

##### **Financial liability model**

.49 Common forms of financial consideration that create a liability for the public sector entity may include:

- (a) cash payments directly attributable to the design, build, acquisition or betterment of the infrastructure; and
- (b) compensation for cash shortfalls between amounts collected by the private sector partner from infrastructure users and an amount determinable in the binding public private partnership agreement.

.50 Financial liabilities that arise from a public private partnership arrangement are liabilities where all of the following are met:

- (a) The public sector entity has a present obligation to deliver cash or another financial asset. The public sector entity cannot avoid this obligation.
- (b) Settlement in cash or another financial asset results in the reduction in economic resources available to the public sector entity.

- (c) The transaction or event giving rise to the liability has already occurred. Based on the public private partnership's contractual terms, the public sector entity would evaluate which transaction or event gives rise to the liability (e.g., entering the public private partnership agreement or construction taking place).
- .51 *Subsequent measurement of a financial liability should be at amortized cost using the effective interest method.* [APRIL 2023]
- .52 To extinguish all or a portion of a financial liability, the public sector entity must:
- (a) discharge the liability by paying the private sector partner cash or delivering another financial asset; or
  - (b) be legally released from its responsibility for the liability either by law or by the private sector partner.
- .53 The public sector entity allocates transfers of cash or other financial assets to repayments of the liability and interest expense according to FINANCIAL INSTRUMENTS, Section PS 3450.
- .54 Interest charges and charges for services provided by the private sector partner in the public private partnership are accounted for as expenses in the period to which they relate.
- Discount rate
- .55 The implicit contract rate would be used to calculate the finance charge embedded in a financial liability related to the public private partnership for the purposes of expense recognition over the course of the arrangement.
- .56 Where the implicit contract rate is not determinable, the weighted average cost of capital specific to the public private partnership arrangement, or the private sector partner's cost of capital should be used.
- .57 In rare circumstances where the public sector entity establishes that none of these rates are available, the public sector entity would use another rate that accurately reflects the financing charge embedded in the financial liability model. The basis for the utilized rate, including the circumstances resulting in the inability to determine a rate in accordance with paragraphs PS 3160.55-.56 should be disclosed in the financial statement notes.
- .58 The interest rate used to determine the finance charge should remain consistent throughout the public private partnership arrangement, unless the terms of the arrangement have been renegotiated. In subsequently measuring the liability, the effective interest method should be used in accounting for the liability that has been discounted.
- User-pay model**
- .59 The public sector entity may not have a contractual obligation to pay cash or another financial asset to the private sector partner in exchange for the design, build, acquisition or betterment of infrastructure. Instead, the public sector entity grants the private sector partner the right to earn revenue from third-party users or access to another revenue-generating asset as compensation. This type of public private partnership arrangement is referred to as the user-pay model. These rights often take the form of:
- (a) earning revenue from third-party users of the infrastructure (e.g., a toll bridge); or
  - (b) accessing another revenue-generating public sector entity asset for the private sector partner's use (e.g., access to operate, maintain and charge rents at a college residence owned by the public sector entity).
- .60 Performance obligations that arise from a public private partnership arrangement are recognized as liabilities where all of the following are met:
- (a) The terms of the public private partnership require the public sector entity to provide the private sector partner ongoing access to the infrastructure to earn revenue from third-party users, representing a present obligation.
  - (b) In addition to giving up its ability to collect revenues from infrastructure users, its obligation to provide access to the private sector partner requires the public sector entity stand ready to protect the private sector partner's right to earn revenue from the third-party users. This sacrifice of economic benefits can take various forms, including:
    - (i) enforcing a payment by third-party users;
    - (ii) enforcing exclusive access to the private sector partner; and
    - (iii) protecting the rights of the private sector partner.
  - (c) Providing ongoing access is the result of past events and transactions occurring under the public private partnership agreement.
- Performance obligation**
- .61 *When the public sector entity recognizes a liability as part of granting the private sector partner the right to earn revenue from third-party users or from another revenue-generating asset, revenue should be recognized and the liability reduced according to REVENUE, Section PS 3400.* [APRIL 2023]
- .62 The timing of the revenue recognition is determined by the terms and conditions of the public private partnership that specify the public sector entity's obligation to provide the private sector partner access to the infrastructure asset (or another revenue-generating asset). In determining when the performance obligation is satisfied, guidance in REVENUE, Section PS 3400, would apply.
- Modifications to contractual terms and takeover rights**
- .63 Modifications, which may include deductions, liquidated damages or penalties, during the life of the public private partnership occur based on events and circumstances unique to each public private partnership. Modifications are accounted for when the event occurs, depending on the facts and circumstances of each scenario. For example, after building a bridge to relieve traffic congestion, a municipality may need to replace stop signs at nearby intersections with roundabouts to improve traffic flow. Such a modification would be accounted for as a betterment or a capital asset addition when it occurs.

## **PRESENTATION AND DISCLOSURE**

- .64 Presentation and disclosure requirements for infrastructure assets or betterments, including those procured through a public private partnership arrangement, are set out in TANGIBLE CAPITAL ASSETS, Section PS 3150. Liabilities resulting from public private partnerships are classified and presented on the statement of financial position according to their substance.
- Disclosure**
- .65 *A public sector entity should disclose the following information related to a public private partnership:*
- (a) *significant terms of the arrangement that may affect the amount, timing and uncertainty of future cash flow payments;*
  - (b) *key rights and obligations for the public sector entity and private sector partner under the arrangement;*
  - (c) *the accounting policy used by the public sector entity in accounting for public private partnerships, including the key assumptions and basis for any estimation techniques used; and*
  - (d) *changes in the terms of the public private partnership arrangement occurring during the reporting period. [APRIL 2023]*
- .66 When deciding the level of detail to disclose, entities consider the usefulness of the information to readers in assessing the nature and extent of an entity's infrastructure asset and associated liability. It may be useful to group similar items together.
- .67 Public private partnership disclosure requirements may overlap with the disclosure requirements of existing accounting standards. For example:
- (a) Infrastructure disclosures may overlap with those required by TANGIBLE CAPITAL ASSETS, Section PS 3150;
  - (b) Financial consideration and financial liabilities disclosures may overlap with those required by LONG-TERM DEBT, Section PS 3230, and FINANCIAL INSTRUMENTS, Section PS 3450;
  - (c) Non-financial consideration disclosures may overlap with those required by REVENUE, Section PS 3400;
  - (d) Operating and maintenance costs disclosures may intersect with those required by CONTINGENT LIABILITIES, Section PS 3300, CONTRACTUAL RIGHTS, Section PS 3380, and CONTRACTUAL OBLIGATIONS, Section PS 3390.
- .68 Because of the significant assumptions required in measuring the infrastructure asset and liability, it is important to provide financial statements users with information describing the key assumptions and basis for any estimation technique used. For financial liabilities, significant terms of the arrangement may include minimum guarantees, renegotiations, repricing, deductions related to non-performance, etc.
- .69 There are important rights and obligations that would assist financial statements users in understanding the benefits and risks of the public private partnership arrangement. Such rights and obligations may include:
- (a) renewal options;
  - (b) termination options;
  - (c) rights to receive assets at the end of the arrangement;
  - (d) obligations to provide the private sector partner access; and
  - (e) rights granted to the private sector partner.
- .70 A clear description of the accounting policy used by the public sector entity for the public private partnership would be included in the notes to the financial statements. The description of the accounting policy is necessary for users' interpretation of the public sector entity's financial statements. Where a performance obligation is recognized, the public sector entity would disclose how revenue is being recognized.
- .71 Where a public sector entity uses an alternative discount rate, per paragraph PS 3160.57, to reflect the financing charge embedded in the financial liability model, disclosure should include an explanation of why the prescribed discount rates per paragraphs PS 3160.55-.56 were determined unavailable for an arrangement.
- .72 Professional judgment is required to determine the location in the notes for disclosures that would provide the most understandable overview of a public sector entity's public private partnerships for financial statements users.

## **EFFECTIVE DATE AND TRANSITIONAL PROVISIONS**

- .73 This Section applies to fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. This Section may be applied retroactively or prospectively, as follows:
- (a) prospectively, for an infrastructure asset and related liability where control by the public sector entity over the infrastructure asset (i.e., acquisition, construction, or betterment to existing infrastructure) arose on or after April 1, 2023;
  - (b) retroactively with or without prior period restatement, for an infrastructure asset and related liability where control by the public sector entity over the infrastructure arose prior to April 1, 2023, and the asset and related liability has not been previously recognized; and
  - (c) retroactively with or without prior period restatement, for an infrastructure asset and related liability where control by the public sector entity over the infrastructure asset arose prior to April 1, 2023, and the previously recognized asset and related liability requires adjustment in applying this Section.

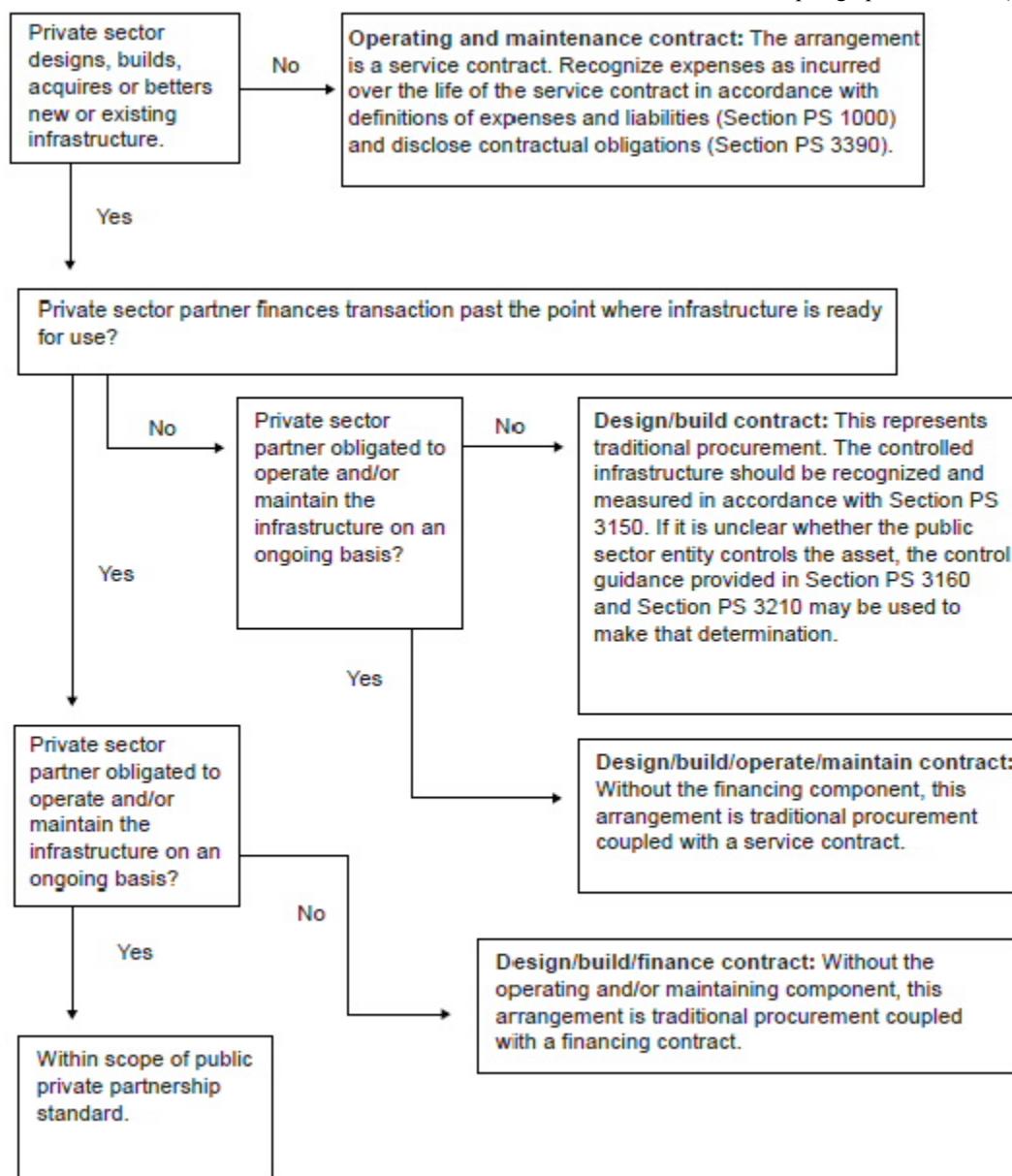
[Former paragraph PS 3160.73, amended by 2022-2023 annual improvements, retained in Archived Pronouncements.]

.74 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 3160.05, PS 3160.23 and PS 3160.48 and the footnotes 3 and 4 in paragraph PS 3160.05. 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.

## APPENDIX A

### DECISION TREE – SCOPE OF APPLICABILITY

The following decision tree has been prepared to clarify what transactions are within the scope of this Section and what transactions are not. If transactions are not within the scope of this Section, the decision tree shows where the appropriate guidance may be found in the PSA Handbook. The decision tree is illustrative only and matters of principle relating to particular situations should be decided in the context of the Section. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).



## APPENDIX B

### ILLUSTRATIVE EXAMPLES

This material is illustrative only. Matters of principle relating to particular situations should be evaluated on a case-by-case basis with the guidance provided in this Section. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).

The examples illustrate how to apply certain aspects of the guidance in this Section. Example 5 provides a detailed illustration of public private partnership accounting over multiple years and with journal entries.

## TABLE OF CONTENTS

	<b>Paragraph 11</b>
<b>Control criteria applied</b>	IE.01-IE.07
Example 1 — New community recreation centre	IE.01-IE.07
<b>User-pay model</b>	IE.08-IE.13
Example 2 — Toll highway	IE.08-IE.13
<b>Mixed consideration</b>	IE.14-IE.19
Example 3 — College residence	IE.14-IE.19
<b>Costs not available with unitary payment</b>	IE.20-IE.32
Example 4 — Expansion of bridge for tourism	IE.20-IE.32
<b>Multi-year example with financial compensation</b>	IE.33-IE.47
Example 5 — City bridge (detailed illustration)	IE.33-IE.47

## CONTROL CRITERIA APPLIED

### Example 1 — New community recreation centre

- IE.01 A municipal government enters a 25-year arrangement with a private sector consortium to design, build, finance, operate and maintain a new community recreation centre. There are no predetermined service payments.
- IE.02 Under the terms of the agreement, the government has specified in the agreement that there must be free and full access provided to the general public from 9:00 a.m. to 12:00 p.m. and 7:00 p.m. to 10:00 p.m. every day of the week. Outside of these public hours, the private sector partner may run a private fitness club and is permitted full discretion to charge and collect fees for use per visit, or through a membership program. At the end of the 25-year agreement, the recreation centre will become the legal property of the municipal government. The estimated useful life of the building is 40 years.
- IE.03 In determining whether the government controls the recreation centre, the government must control the purpose and use of the recreation centre, access to the facility and any significant residual interest at the end of the term of the agreement (if such interest exists).
- IE.04 Mandatory requirements to keep the recreation centre open for public use and free for those specified hours indicates that the government controls, to a certain extent, the purpose and use of the asset. The government benefits from the purpose and use of the recreation centre and its capacity to provide public services.
- IE.05 Controlling access means that the public sector entity can deny or regulate access to those benefits and is exposed to the risks associated with the recreation centre. Control over pricing is an indicator of controlling access to the infrastructure. In this case, the government controls access by specifying certain hours when the public has full and free access to the recreation centre.
- IE.06 Finally, the recreation centre is expected to be handed back to the government after the 25-year agreement is complete. As a result, the government is again exposed to the long-term benefits and risks of the recreation centre. As the facility is expected to have another 15 years useful life upon handover, it is determined that the government controls a significant residual interest.
- IE.07 The government would recognize the recreation centre as an asset because all three control criteria have been met. It would also recognize a liability representing a performance obligation on the part of the local government for providing the right to charge fees and continual access to the recreation centre to the private sector partner.

## USER-PAY MODEL

### Example 2 — Toll highway

- IE.08 A government decides to impose a toll on an existing highway to generate revenues. The government enters into an arrangement where the private sector partner is responsible for collecting tolls on the highway. To compensate the private sector partner, the government allows it to keep 50 percent of toll revenues collected. The government would set the toll rate.
- IE.09 The existing highway has already been recorded on the government's books. As part of the arrangement, the private sector partner will install additional infrastructure to electronically charge a toll to drivers who use the highway. The toll system has

an estimated cost of \$100 million. At the end of the 10-year public private partnership, the toll-collection system is required to be in good condition and will be handed over to the government with an expected useful life of another 10 years.

IE.10 This transaction would fall within the scope of public private partnerships. The government:

- (a) controls the purpose and use of the toll system;
- (b) has access to its data;
- (c) sets the toll price each year; and
- (d) retains the toll infrastructure for another 10 years after the public private partnership agreement expires.

Accordingly, the government would record the asset on its books upon initial recognition.

IE.11 The government would record a toll-system asset at its estimated cost of \$100 million and record a corresponding liability for \$100 million. The liability would represent a performance obligation, as the government must provide the private sector partner with access to the infrastructure and continually maintain the private sector partner's exclusive right to collect tolls on its behalf for 10 years.

IE.12 As the new toll system has a useful life of 20 years, the government would record annual amortization expense of \$5 million a year.<sup>12</sup> It is determined that the government relieves its performance obligation over time and would record revenues of \$10 million each year of the 10-year agreement.<sup>13</sup>

IE.13 In addition, as the private sector partner collects toll revenues, it would remit 50 percent of its collections to the government. The toll revenue remitted to the government would be recognized as it is earned by the government.

#### **MIXED CONSIDERATION**

##### **Example 3 — College residence**

IE.14 A college is working with a private sector partner to design, build, finance, operate and maintain a new residence for approximately 500 students on the school's main campus on land the college owns. The private sector partner will be paid for constructing the building infrastructure through the rents it collects during the 25-year agreement. The private sector partner will be paid a predetermined service payment for the duration of the 25-year contract in exchange for providing operating and maintenance services. At the end of the agreement, the college will assume all operating and maintenance activities.

IE.15 The college is obligated to pay \$1 million each year for 25 years for the operating and maintenance service contract. In addition to this, the college must also make two lump-sum payments of \$3 million in Years 20 and 24. Each \$3-million payment pertains to replacing certain key components of the building that will ensure that the residence has another 20 years of useful life upon hand back for a total useful life of 45 years. In the final year of the agreement, an engineering assessment will be conducted to determine if the building has a useful life of at least another 20 years. Otherwise, the private sector partner is responsible for incurring the costs to upgrade the condition of the building to meet these requirements.

IE.16 The college is deemed to have controlled the asset and would recognize it at cost of \$70 million. A liability would also be recognized, representing a performance obligation for the college to maintain exclusive rights for the private sector partner to charge rents to third parties. The college relieves its performance obligation over time and would record revenues of \$2.8 million per year for term of the 25-year agreement.<sup>14</sup> In this case, the scheduled \$3 million payments would not be capitalized, as they sustain the building's estimated useful life of 45 years.<sup>15</sup> As these payments will not enhance the service capacity of the asset, the college does not treat them as betterments. The building's estimated useful life of 45 years presumes that the private sector partner will meet its performance obligations. Accordingly, the college would record annual amortization expense of \$1.56 million per year.<sup>16</sup>

IE.17 The payments outlined in the operating and maintenance schedule would be disclosed in accordance with CONTRACTUAL OBLIGATIONS, Section PS 3390. The public sector entity benefits from the private sector partner's service to provide ongoing operating and maintenance over the life of the contract. The predetermined service payment of \$1 million per year for operating and maintenance would be expensed each year for the life of the contract.

IE.18 In addition to annual \$1-million operating and maintenance expenses, the college has agreed to make two lump-sum payments in Years 20 and 24 of \$3 million relating to replacing certain key components of the building (e.g., replacing the roof, windows and HVAC). In public private partnership arrangements, scheduled payments may not correspond to the timing of when the private sector partner incurs the related costs. The private sector partner is responsible for the college residence to have an expected useful life of another 20 years upon handover back to the college. This is different from traditional procurements, where if the college paid for the HVAC system to be replaced, then the costs related to the new HVAC system would be recorded in the period when the cost was incurred.

IE.19 The college should expense these costs over the life of the service contract as the benefit of the payments is accrued over the period of the contract. The payments are what ensure that the asset is sustained in a manner that it may last another 20 years, upon handover. In this case, the college determines that the total of all scheduled payments should be spread equally over the 25-year contract. This results in the college recording an expense and accruing a payable for \$1.24 million each year.<sup>17</sup> When the college makes the scheduled payment, it would relieve the accrued liability.

#### **COSTS NOT AVAILABLE WITH UNITARY PAYMENT**

##### **Example 4 — Expansion of bridge for tourism**

- IE.20 A provincial government estimates that it could increase tourism if it expanded the capacity of an existing bridge from the United States. The two-lane bridge is often congested with transport trucks. Tourists hesitate to use the bridge as it can often take hours to cross.
- IE.21 The government has entered into a public private partnership and specified to the private sector partner that it must increase the capacity for automobiles to cross the border by threefold. This means the number of automobiles (including trucks) that cross the bridge in a single hour should increase by three times, otherwise the private sector partner has failed to perform in accordance with the agreement. The government has not specified how the private sector partner might accomplish this (e.g., expand the existing bridge, create another bridge, etc.). At the end of the 30-year agreement, the government will assume responsibility for ongoing operating and maintenance.
- IE.22 Given the nature of the contract and the fact that the government did not specify the infrastructure that needs to be delivered, three different proposals were submitted and evaluated as part of the procurement process. As a benchmark, the government also performed some internal analysis ("shadow bid") that calculated how much it would cost to construct a six-lane bridge through traditional procurement. The government awarded the contract to the bidder with the lowest net present value to meet its requirements.
- IE.23 The winning bidder approached the project by replacing the existing bridge with a new six-lane highway bridge. The predetermined service payment it proposed was \$75 million per year for 30 years, which resulted in the lowest net present value among all bidders. The government controls the infrastructure and it should be recorded on its books. However, construction costs were not disclosed as part of the procurement process. The winning bidder agreed to share their actual design-build costs, which they report as \$727.19 million. These capital costs exceed the government's own internal estimates, leading it to suspect that the bidder's capital costs may exceed fair value. Also, the winning bidder did not separate the capital portion of the payments from operating and maintenance costs. As a result, estimation techniques are required.
- IE.24 By estimating the fair value of the asset and the fair value of the service contract, the public sector entity can determine how much of \$75 million should be allocated to capital cost and how much should be expensed as operating and maintenance on a residual arrangement value basis. The best techniques will have observable and transparent data points.
- IE.25 The government uses all the reliable information from the procurement process to perform a relative fair value analysis. To start, the government's own \$685 million shadow bid provides a reasonable estimate of the bridge's fair value. This estimate includes an upward adjustment of approximately 10 percent to reflect costs incurred through the public private partnership process that would not have been included in a traditional procurement estimate.<sup>18</sup>
- IE.26 The government does not use information from the two losing bidders. The other two bidders had proposed to expand the existing bridge (and not to build a new one). Their proposals would not reflect the service capacity and risk profile of the newly constructed bridge.
- IE.27 The government then estimates the fair value of the service contract. The government knows from experience that operating and maintenance costs for a two-lane border crossing were \$7 million per year. It estimates that the bridge's increased lane capacity would also increase costs by \$3 million, bringing the total estimated fair value of the service element of the contract to \$10 million per year.
- IE.28 After performing a fair value analysis, the government supports the fair value of the newly constructed bridge to be \$685 million and the fair value of the operating and maintenance costs to be \$10 million per year. The \$727.19-million capital costs reported by the winning bidder are higher than asset's fair value. Costs in excess of \$685 million should not be capitalized as they would exceed the fair value of the infrastructure asset.
- IE.29 In reconciling the winning bidder's reported costs of \$727.19 million and internal estimates of \$685 million, the government noted that the private sector partner's actual costs exceeded its bid submission to the government. The government protected itself from these excess costs by paying for the transfer of risk through the agreement. As the capitalized costs of the infrastructure asset should be equal to its fair value, the government uses its own estimates to recognize and measure the asset and the ongoing operating and maintenance costs.
- IE.30 To separate the predetermined service payment of \$75 million, the government uses the fair value of the operating and maintenance contract of \$10 million. The residual value of \$65 million per year represents the capital portion of the predetermined service payment. The initial cost of the asset is measured at \$685 million, with a predetermined service payment of \$65 million per year relating to capital, which implies an implicit contract rate of 8.715 percent.<sup>19</sup>
- IE.31 The infrastructure asset would be recorded at \$685 million along with a corresponding financial liability as it is developed. Once the bridge is ready for use, the asset has an estimated useful life of 75 years. The annual amortization charge recorded by the government would be approximately \$9.13 million per year on a straight-line basis.<sup>20</sup>
- IE.32 The government would also record annual operating and maintenance expenses of \$10 million each time it made a predetermined service payment. The remaining \$65 million of the payment would be recorded as follows to adjust the liability and reflect interest expense:

Service portion  
of contract

Liability payments

<u>Year</u>	<u>Liability January 1 (millions)</u>	<u>Interest expense (millions)</u>	<u>Payment (millions)</u>	<u>Liability December 31 (millions)</u>	<u>Operating and maintenance (millions)</u>	<u>Amortization expense (millions)</u>
1	\$685.00	+\$59.70	-\$65	\$679.70	\$10	\$9.13
2	\$679.70	+\$59.24	-\$65	\$673.94	\$10	\$9.13
3	\$673.94	+\$58.73	-\$65	\$667.68	\$10	\$9.13
...	...	...	...	...	...	...
28	\$165.37	+\$14.41	-\$65	\$114.78	\$10	\$9.13
29	\$114.78	+\$10.00	-\$65	\$59.79	\$10	\$9.13
30	\$59.79	+\$5.21	-\$65	\$0	\$10	\$9.13
...					\$10	...
74			—		—	\$9.13
75			—		—	\$9.13

#### MULTI-YEAR EXAMPLE WITH FINANCIAL COMPENSATION

##### Example 5 — City bridge project (detailed illustration)

- IE.33 A city agrees to a public private partnership arrangement with a P3 consortium to design, build, finance, operate and maintain a new bridge for the city after a competitive bidding process. The cost of the bridge is \$400 million based on the information provided in the agreement and the information available to the city through the procurement process, such as the financial model.
- IE.34 The city plans to set up separate accounts for the major components of the infrastructure to accurately track costs and depreciation. The core bridge structure is expected to have a useful life of 75 years and represents 60 percent of the total capital cost. The road bed and surface are expected to have a useful life of 50 years and represent 40 percent of the cost. The city will also be installing signs and traffic signals before the bridge is opened for use, which are expected to have a useful life of 20 years. These signs and traffic signals are outside the scope of the public private partnership agreement and the city will be responsible for these costs.
- IE.35 Additional details about the agreement and procurement process are as follows:
- The city is required to make a lump-sum milestone payment of \$100 million when construction reaches 40 percent of substantial completion.
  - There is a commissioning lump-sum payment of \$100 million to reflect the bridge is ready to use by the public (i.e., 100 percent complete).
  - Before the bridge is ready for use, the city will install signs and signals that will cost \$3 million.
  - The capital cost of \$400 million less the two milestone payments above leaves a remaining \$200 million to be financed by the P3 consortium over the 30-year term of the public private partnership agreement.
  - For the first year the bridge is operational in 2X23, the predetermined service payments will total \$16.51 million. The capital portion of the predetermined service payments is \$13.01 million per year and the non-capital portion is \$3.5 million per year (adjusted annually for inflation).
  - Based on the capital portion of the predetermined service payment and the \$200 million of capital costs being financed through the P3 consortium, the rate implicit in the agreement is 5 percent.
- IE.36 Key dates in the public private partnership are as follows:

<u>Key milestones</u>	<u>Date</u>
City year-end	December 31
Financial close	February 1, 2X20
Construction start	September 30, 2X20
40% construction completed (milestone payment 1 of 2)	December 31, 2X20
70% construction completed	December 31, 2X21
Install signs and signals	August 1, 2X22

Bridge is operational January 1, 2X23

IE.37 The following table states the capital portion of the predetermined service payment.

	<u>Payment terms</u>
Loan amount	\$200,000,000
Interest rate	5%
Term in years	30
Number of payments	1 annual payment
Payment	\$13,010,287/yr.

IE.38 Using the predetermined service payment calculated in paragraph B37, the following table outlines how the \$200-million financial liability would be calculated and paid down over time as predetermined service payments are made. Unless the terms of the public private partnership change or are renegotiated, this schedule would be applied until the liability has been completely paid off in 2X52.

<u>Year</u>	<u>Loan outstanding, beginning of year</u>	<u>Interest calculated at implicit contract rate 5%</u>	<u>Principal</u>	<u>Loan outstanding, year-end</u>
2X23	\$200,000,000	\$10,000,000	\$3,010,287	\$196,989,713
2X24	196,989,713	9,849,486	3,160,801	193,828,912
2X25	193,828,912	9,691,446	3,318,841	190,510,070
2X26	190,510,070	9,525,504	3,484,784	187,025,287
2X27	187,025,287	9,351,264	3,659,023	183,366,264
2X28	183,366,264	9,168,313	3,841,974	179,524,290
2X29	179,524,290	8,976,215	4,034,073	175,490,218
2X30	175,490,218	8,774,511	4,235,776	171,254,442
2X31	171,254,442	8,562,722	4,447,565	166,806,877
2X32	166,806,877	8,340,344	4,669,943	162,136,933
2X33	162,136,933	8,106,847	4,903,440	157,233,493
2X34	157,233,493	7,861,675	5,148,612	152,084,881
2X35	152,084,881	7,604,244	5,406,043	146,678,838
2X36	146,678,838	7,333,942	5,676,345	141,002,493
2X37	141,002,493	7,050,125	5,960,162	135,042,330
2X38	135,042,330	6,752,117	6,258,171	128,784,160
2X39	128,784,160	6,439,208	6,571,079	122,213,081
2X40	122,213,081	6,110,654	6,899,633	115,313,448
2X41	115,313,448	5,765,672	7,244,615	108,068,833
2X42	108,068,833	5,403,442	7,606,845	100,461,988
2X43	100,461,988	5,023,099	7,987,188	92,474,800
2X44	92,474,800	4,623,740	8,386,547	84,088,253
2X45	84,088,253	4,204,413	8,805,874	75,282,379

2X46	75,282,379	3,764,119	9,246,168	66,036,211
2X47	66,036,211	3,301,811	9,708,476	56,327,734
2X48	56,327,734	2,816,387	10,193,900	46,133,834
2X49	46,133,834	2,306,692	10,703,595	35,430,238
2X50	35,430,238	1,771,512	11,238,775	24,191,463
2X51	24,191,463	1,209,573	11,800,714	12,390,750
2X52	12,390,750	619,537	12,390,750	(0)

**Summary of entries during construction**

IE.39 Entries at December 31, 2X20

Dr. Asset – work in progress	\$160M
Cr. Liability to P3 consortium	\$160M

- Construction is 40 percent complete at the end of the entity's first reporting period. Asset and corresponding liability are recorded on a percentage of completion basis ( $\$400M \times 40\% = \$160M$ ).

Dr. Liability to P3 consortium	\$100M
Cr. Cash	\$100M

- To record the first milestone to the P3 consortium. Contract stated a lump-sum payment was due once construction was 40 percent complete. The 40 percent completion mark was certified as being met by an independent party.

IE.40 Entries at December 31, 2X21

Dr. Asset – work in progress	\$120M
Cr. Liability to P3 consortium	\$120M

- Construction is 70 percent complete as at December 31, 2X21. ( $\$400M \times 70\% = \$280M$  - less the \$160M recognized at the prior year-end = \$120M)

IE.41 Entries at August 1, 2X22

Dr. Asset – work in progress	\$3M
Cr. Cash	\$3M

- To record the signs and signals that the city installs just prior to commissioning.

IE.42 Entries as at December 31, 2X22

Dr. Asset – work in progress	\$120M
Cr. Liability to P3 consortium	\$120M

- Record the balance of the \$400M asset value and corresponding liability.

Dr. Liability to P3 consortium	\$100M
Cr. Cash	\$100M

- This is to record the second of two milestone payments of \$100 million.

IE.43 Entries at December 31, 2X22

Dr. Bridge assets	\$240M
Dr. Roads assets	\$160M
Dr. Signals assets	\$3M

Cr. Assets – work in progress	\$403M
-------------------------------	--------

- To initially record the asset cost once the bridge is ready for use. The city has recorded the bridge asset into three separate components with differing useful lives.

- o Bridge – 75 years – (60% of \$400M)
  - o Roads – 50 years – (40% of \$400M)
  - o Signals – 20 years – (100% of \$3M)
- The assets are amortized over their estimated useful lives, which are well beyond the 30-year P3 contractual arrangement.

**Summary of entries post construction**

IE.44 Entries at December 31, 2X23

Dr. Interest expense	\$10M
Dr. Liability to P3 consortium	\$3.01M
Dr. Maintenance expense	\$3.5M
Cr. Cash	\$16.51M

- Record the first year's predetermined service payment.

IE.45 Entries at December 31, 2X23

Dr. Amortization expense	\$6.55M
Cr. Bridge asset	\$3.2M
Cr. Roads asset	\$3.2M
Cr. Signals asset	\$0.15M

- Record amortization expense of the assets:

- o Bridge asset \$240M over 75 years = \$3.2M
- o Roads asset \$160M over 50 years = \$3.2M
- o Signals asset amortization \$3M over 20 years = \$0.15M

IE.46 Entries at December 31, 2X24

Dr. Interest expense	\$9.85M
Dr. Liability to P3 consortium	\$3.16M
Dr. Maintenance expense	\$3.57M
Cr. Cash	\$16.58M

- Record the second year's predetermined service payment (rounded from table above).
- Maintenance expense \$3.57 million reflects adjustment for inflation of 2 percent

IE.47 Entries at December 31, 2X24

Dr. Amortization expense	\$6.55M
Cr. Bridge asset	\$3.2M
Cr. Roads asset	\$3.2M
Cr. Signals asset	\$0.15M

- Record the second year's amortization expense of the assets.

## Footnotes

1. Refer to Appendix A for further guidance on scope of application for this Section.

2. Where lease payments satisfy the conditions for recognition of an infrastructure asset as part of a public private partnership, they are considered within the scope of this Section and should be accounted for in accordance with this Section.
  3. "Financial liabilities" are defined in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.
  4. "Non-financial performance obligations" and "non-financial liabilities" are defined in FINANCIAL STATEMENT PRESENTATION, Section PS 1202.
  5. Accounting for asset retirement obligations is set out in ASSET RETIREMENT OBLIGATIONS, Section PS 3280.
  6. Accounting for contaminated sites is set out in LIABILITY FOR CONTAMINATED SITES, Section PS 3260.
  7. Paragraphs 7.22-7.23 of the Conceptual Framework explain "verifiability" and how a transaction or other event is verifiable.
  8. TANGIBLE CAPITAL ASSETS, paragraph PS 3150.05(c). The same definition is in the Glossary to FINANCIAL INSTRUMENTS, Section PS 3450.
  9. Present value techniques are not a basis of measurement but a measurement technique that may be used within historical cost basis of measurement.
  10. Paragraphs PS 3150.19-21 provide guidance in relation to betterments for complex network systems.
  11. Editorial change, paragraph renumbering only (February 2025).
  12.  $\$100M \div 20 \text{ years} = \$5M$  amortization expense per year.
  13.  $\$100M \div 10 \text{ years} = \$10M$  revenue per year as liability is drawn down.
  14.  $\$70M \div 25 \text{ years} = \$2.8M$  revenue per year as liability is drawn down.
  15. In this example it is assumed that the college is not recording and accounting for specific components of infrastructure as separate assets for the building. It is also assumed that the incurred \$3 million costs do not expand the service capacity of the building. The assessment of whether these costs expand the service capacity of an asset is made on a case-by-case basis. Classification should be consistent with Section PS 3150 and the public sector entity's specific accounting policy on capitalization and betterments.
  16.  $\$70M \div 45 \text{ years} = \$1.56M$  amortization expense per year.
  17. Total of all operating and maintenance payments is  $\$25M + \$6M = \$31M \div 25 \text{ years} = \$1.24M$  (time value of money not applicable).
  18. The 10 percent adjustment includes upfront financing fees, special purpose vehicle costs debt service accounts, and risk transfer related to capital construction.
  19. Thirty annual payments of \$65 million to equal a present value of \$685 million implies a discount rate of 8.715 percent is being used.
  20.  $\$685M \text{ capital cost} \div 75 \text{ years} = \$9.13M$
- 

[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.