SECTION PS 3060
interests in partnerships

PURPOSE AND SCOPE

.01 This Section defines a partnership and establishes standards on how to account for and report a public sector entity's interests in partnerships in the entity's financial statements, regardless of the structures and forms under which the partnership activities take place. This Section does not deal with accounting by the partnership itself.

(paragraph PS 3060.02 deleted)

.03 This Section applies in situations where economic activities meet the definitions and criteria outlined in paragraph PS 3060.06 and paragraphs PS 3060.11-.28, even though such activities may not be referred to as partnerships. However, this Section does not apply in situations where economic activities do not meet the definitions and criteria set out in those paragraphs even though they may sometimes be referred to as partnerships. Accounting for such activities should be governed by their substance.

.04 For the purposes of this Section, an economic activity is not restricted to activities that generate a financial return, but extends to activities for the production and delivery of non-market goods and services that provide benefits to the community, such as law and order. That is, the partners may be motivated by factors other than the generation of financial return, such as the improvement of the welfare of their citizens.

.05 This Section does not apply to arrangements that are in and of themselves:

(a) Executory contracts such as leases and sale-leaseback transactions.

(b) Purchase / sale transactions such as outsourcing of services, management contracts and privatization. [Former paragraph PS 3060.05(b), amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

(c) Transfers such as shared-cost arrangements and government programs. For guidance on how to account for government transfers, refer to GOVERNMENT TRANSFERS, Section PS 3410.

(d) Loans. For guidance on how to account for loans, refer to LOANS RECEIVABLE, Section PS 3050.

(e) Loan guarantees. For guidance on how to account for loan guarantees, refer to LOAN GUARANTEES, Section PS 3310.

(f) Public private partnerships as set out in the scope and recognition criteria under PUBLIC PRIVATE PARTNERSHIPS, Section PS 3160.

DEFINITIONS

.06 The following definitions have been adopted for the purposes of this Section:

A **partnership** is not a government organization but is a contractual arrangement 1 between a public sector entity and a party or parties outside of the reporting entity 2 3 that has all of the following characteristics:

(a) the partners co-operate toward achieving significant clearly defined common goals;

(b) the partners make a financial investment in the partnership;

(c) the partners share control of decisions related to the financial and operating policies of the partnership on an ongoing basis; and

(d) the partners share, on an equitable basis, the significant risks and benefits associated with the operations of the partnership.

The contractual arrangement establishes that the parties have shared control over the partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the public sector entity in the partnership, the extent of control it is able to exercise over the activities of the partnership, and the risks and benefits that accrue to the public sector entity from the partnership. Partnerships may be structured as operations under shared control, assets under shared control or organizations under shared control. [Former paragraph PS 3060.06, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.07 A **business partnership** is a partnership 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 other than the partners 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 other than the partners.

.08 A **partner** is a party to a partnership.

.09 **Proportionate consolidation** 4 is a basis of accounting for a public sector entity's interests in partnerships, other than business partnerships, whereby a public sector entity's pro rata share of each of the assets, liabilities, revenues and expenses that are subject to shared control, is combined on a line-by-line basis with similar items in the public sector entity's financial statements. ADDITIONAL AREAS OF CONSOLIDATION, paragraph PS 2510.06, provides details for applying the proportionate consolidation method.

.10 **Modified equity** is a basis of accounting for a public sector entity's interests in business partnerships whereby the equity method of accounting is modified only to the extent that the business partnerships' accounting principles are not adjusted to conform with those of the public sector entity.

ELEMENTS THAT DEFINE A PARTNERSHIP

Contractual arrangement

.11 A distinctive characteristic common to all partnerships is that two or more partners are bound by a contractual arrangement which establishes that the partners have shared control over the partnership. This characteristic of shared control distinguishes a public sector entity's interest in a partnership from investments in other activities in which the entity may exercise control (see GOVERNMENT REPORTING ENTITY, Section PS 1300, BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, and PORTFOLIO INVESTMENTS, Section PS 3041).

.12 Activities conducted with no formal contractual arrangement, but which meet the definition of a partnership set out in paragraph PS 3060.06, are in substance partnerships for the purposes of this Section.

.13 The contractual arrangement establishes shared control over the partnership. Such a requirement ensures that no single partner is in a position to control the activities of the partnership unilaterally. The arrangement identifies those decisions in areas essential to the goals of the partnership that require the consent of all the partners and those decisions which may require the consent of a specified majority of partners.

.14 The contractual arrangement may be evidenced in a number of ways, for example, by a contract between the partners or minutes of discussions between the partners. In some cases, the arrangement is incorporated in the enabling legislation, articles or other by-laws of the partnership. Whatever its form, the contractual arrangement is usually in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the partnership;

(b) the appointment of the board of directors or equivalent governing body of the partnership and the voting rights of the partners;

(c) the financial investments by the partners; and

(d) the sharing by the partners of the output, revenues, expenses or surpluses or deficits of the partnership.

.15 In some cases, the contractual arrangement may designate a partner, or an outside party or parties, as the manager or operator of the partnership. The manager does not control the partnership, nor does the manager exercise shared control with the partners solely by virtue of his or her management role. Rather, the manager acts within the financial and operating policies that the partners have prescribed.

.16 A government may incorporate regulations in any contractual arrangement it enters into (e.g., level of service, level of maintenance of an asset that may be returned to it at the end of a set term). Governments regulate a variety of activities with which they have no ongoing operational involvement. As such, regulations in and of themselves do not constitute shared control.

Significant clearly defined common goals

.17 Common goals are those that all partners share. For example, a number of communities may join together to build and operate a landfill site or a recreational facility. The significant common goals of the communities involve service provision and sharing the costs and revenues associated with the operations of the facility, and so, the arrangement would qualify as a partnership.

.18 On the other hand, a community may hire an individual or organization to operate a recreational facility for a fee. The significant goals of the government are to provide a service and cost savings, while the significant goal of the management organization is to earn revenues from the contract to manage the facility. While the significant goals of each party are mutually beneficial, they are not common to both parties to the contract, and so, the arrangement does not qualify as a partnership.

Financial investment

.19 A financial investment may be in the form of assets and/or assuming responsibility for ongoing operating costs. The investment of financial assets and tangible capital assets in the partnership would be accounted for in accordance with paragraphs PS 3060.41-.54. The value assigned to the responsibility for ongoing operating costs would be that determined in the contractual arrangement for the partnership.

Shared control

.20 Shared control of a partnership means that the partners make decisions related to the financial and operating activities of the partnership on an ongoing basis based on the terms of the contractual arrangement; none of the partners is in a position to exercise unilateral control over the partnership. When there is shared control, partners have an active ongoing interest or relationship in the arrangement other than as passive investors or as parties to a purchase / sale transaction. Shared control would exist, for example, when a joint board is established to oversee the provision of police or fire protection services for a number of local governments.

Shared risks and benefits

.21 In a partnership, each partner is exposed to a share of the combined risks and shares in the benefits related to the common goals of the partnership. In a partnership, there must be an equitable sharing among the partners of the significant risks and benefits. For example, several local government partners may operate a landfill site to provide a service to their constituents on a shared cost basis. The partners would generally share the operating and environmental risks, as well as the revenues associated with operating the landfill site.

.22 Risks and benefits would not be considered to be equitably shared in an arrangement where the public sector entity retains the full risk of owning an asset while allowing another party to receive the benefit of earning revenue from user fees derived from that asset. Risks and benefits would not be equitably shared when, for example, a government owned a highway that it allowed a private sector organization to operate and earn revenues from, based on the agreement and any necessary legislation.

FORMS AND STRUCTURES OF PARTNERSHIPS

Operations under shared control

.23 The operations of some partnerships may involve the use of the assets and other resources of the partners, rather than the establishment of an organization or a financial structure that is separate from the partners themselves. In these circumstances, each partner may use its own assets for the purposes of the activities of the partnership. The assets remain under the ownership and control of each partner. Each partner also incurs its own expenses and liabilities and raises its own financing, which represent its own obligations. The arrangement may provide a means by which the revenue from the sale of goods or services by the partnership and any expenses incurred in common are shared among the partners.

.24 An example of operations under shared control is when two or more partners combine their resources and expertise for use in the operation of a landfill site. One partner may provide the land, others the equipment and others cash.

.25 In other cases, the activities of the partnership may be carried out by the employees of one of the partners alongside the partner's similar activities. For example, provision of social services through a partnership may involve one of the public sector partners being responsible for the staffing and administration of the program while all partners contribute ongoing funding.

Assets under shared control

.26 Some partnerships involve the shared control, and often the shared ownership, by the partners of one or more assets invested in, or acquired for and dedicated to the purposes of, the partnership. Assets under shared control are used to obtain benefits for the partners. Such a partnership does not involve the establishment of a corporation or other organization, or a financial entity that is separate from the partners themselves. For example, several local governments may form a partnership to acquire fire protection equipment to provide service to their constituents.

Organizations under shared control

.27 An organization under shared control is a type of partnership which involves the establishment of a separate organization (e.g., a corporation) in which each partner has an interest. The organization operates similarly to other organizations, except that a contractual arrangement between the partners establishes shared control over the economic activities of the organization.

.28 In an organization under shared control, each partner usually contributes cash or other resources to the partnership. The organization owns the assets of the partnership and incurs liabilities and expenses. It may enter into contracts in its own name and raise financing for the purposes of the activities of the partnership. For example, several local governments may operate a transit organization to provide transit services to their constituents.

ACCOUNTING FOR THE PUBLIC SECTOR ENTITY'S INTERESTS

Partnerships other than business partnerships

.29 *Financial statements should recognize the public sector entity's interests in partnerships, except for business partnerships, using the proportionate consolidation method.* [OCT. 1999]

.30 Public sector entities may enter into partnerships that are similar to government organizations 5 except for the extent of public sector entity's control. A public sector entity shares control of a partnership with its partners, while it controls a government organization. Government organizations, other than government business enterprises, are consolidated in the public sector entity's financial statements under GOVERNMENT REPORTING ENTITY, Section PS 1300. Partnerships that carry out similar activities to government organizations that are not government business enterprises would be accounted for using proportionate consolidation. Partnerships that carry out similar activities to government business enterprises are called business partnerships. The accounting for business partnerships is addressed in paragraphs PS 3060.32-.35. [Former paragraph PS 3060.30 and related footnote, amended by the Conceptual Framework, retained in Archived Pronouncements.] [Former paragraph PS 3060.30, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.31 Proportionate consolidation of partnerships that are not business partnerships provides financial statement users with the same sort of information about the financial position and results of operations of the public sector entity as would be available if the public sector entity managed the resources and operations of the partnership through a government organization that is not a government business enterprise. Proportionate consolidation also reflects the level of activities (e.g., costs and revenues) on the public sector entity's statement of operations, the financial resources available, and the risks to which the entity is exposed for such activities. [Former paragraph PS 3060.31, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

Business partnerships

.32 *Business partnerships should be accounted for by the modified equity method applied using the public sector entity's share of the business partnership.* [OCT. 1999]

.33 Public sector entities may enter into business partnerships that are similar to government business enterprises 6 except for the extent of government control. Such partnerships may also carry out similar activities to government business enterprises. A business partnership differs from other partnerships in its relationship to the public sector entity, and its objectives and operations. A business partnership represents a financial asset of the public sector entity and given its autonomy, business-oriented objectives, and financial self-sufficiency, 7 equity accounting is appropriate. Consistent with GOVERNMENT REPORTING ENTITY, Section PS 1300, for government business enterprises, the modified equity method is the most suitable form of equity accounting for business partnerships.

.34 Accounting for business partnerships by the modified equity method avoids commingling the budget and actual results of business partnerships on a line-by-line basis with those of the public sector entity's activities having different objectives. It also avoids including the public sector entity's share of the gross debt of business partnerships with the gross debt of governmental units, 8 as business partnerships are expected to repay that debt from their own revenues. [Former paragraph PS 3060.34, amended by 2018-2019 annual improvements, retained in Archived Pronouncements.]

.35 The modified equity method supplemented with disclosure of condensed financial information gives financial statement users an informative accounting of the full nature and extent of the financial affairs and resources of those business partnerships. It provides a measure of the impact that business partnerships may have on a public sector entity's ability to discharge its liabilities or to provide financial resources for future operations.

Change in circumstances

.36 A change in circumstances over the life of a partnership could affect either the valuation of the public sector entity's interest in the partnership or in some cases, whether the arrangement would continue to be treated as a partnership.

.37 In some cases, impairments in value of an asset invested in a partnership or recognition of a contingent liability would require a write-down in the value of the public sector entity's reported interest in the partnership.

.38 In other cases, the sharing of control, risks and benefits may change to such an extent as to cause an arrangement to no longer meet the definition of a partnership. In such cases, the public sector entity's interest would be accounted for in accordance with GOVERNMENT REPORTING ENTITY, Section PS 1300, or other relevant Public Sector Accounting Standards or Guidelines. 9

.39 The circumstances affecting a business partnership may also change so that it no longer meets the definition of a business partnership. Failure to meet any of the four elements of the business partnership definition in paragraph PS 3060.07, would require such a change in status of the business partnership.

.40 The alteration of an accounting treatment necessitated by events or transactions that reflect a difference in substance from those previously occurring is not considered to be a change in accounting policy or change in classification as described in ACCOUNTING CHANGES, Section PS 2120. Therefore, the change in accounting treatment would not be applied retroactively. Nevertheless, the change in accounting treatment, the underlying reasons for the change and the financial effect of the change would be disclosed.

ACCOUNTING FOR INVESTMENTS OF ASSETS

.41 *When a public sector entity invests assets in a partnership and receives in exchange an interest in the partnership, any loss* 10 *that occurs should be recognized at the time of the initial investment in the statement of operations.* [OCT. 1999]

.42 The existence of such a loss would usually provide evidence of a decline that is other than temporary, in the carrying value of the relevant assets retained by the public sector entity. It is also necessary for the entity investing the assets to recognize the decline in value of the portion of the assets retained.

.43 *When a public sector entity invests assets in a partnership and receives in exchange an interest in the partnership, any gain* 11 *that occurs should be reported in the financial statements of the public sector entity as a deferred gain at the time of the initial investment only to the extent of the interests of the other non-related partners.* [OCT. 1999]

.44 The amount of the deferred gain is equal to the other partners' proportionate share of the difference between the fair value and net carrying amount of the asset.

.45 *When a partnership other than a business partnership is dissolved, any deferred gain related to the assets invested by the public sector entity should be recognized as revenue.* [OCT. 1999]

.46 For partnerships other than business partnerships, the deferred gain would not be amortized. It would only be realized at the time the partnership is dissolved and the assets are distributed to the partners.

.47 *For business partnerships, any deferred gain related to the assets invested by the public sector entity should be amortized to net operating results in a rational and systematic manner over the life of the invested assets. If the invested assets are non-depreciable, the deferred gain should be amortized to net operating results on a basis appropriate to the expected revenue or service to be obtained from their use by the business partnership. When the invested assets are disposed of by the business partnership to an independent third party, any unamortized portion of the deferred gain should be recognized as revenue.* [OCT. 1999]

.48 When the public sector entity invests assets in a business partnership, the deferred gain would be amortized. As an asset is consumed over time by a business partnership using it to generate cash inflows, deferred gains arising from the public sector entity's investment of assets in the business partnership would become realized. Realization would occur because, by definition, business partnerships are self-sustaining from revenues received from outside of the business partnership. Deferred gains related to business partnerships would also become realized when a business partnership sells an asset invested by the public sector entity to an independent third party or when the business partnership is dissolved.

Reporting tangible capital assets

.49 *When tangible capital assets are invested in a partnership other than a business partnership, a public sector entity should report those assets as follows:*

(a) the other non-related partners' share of assets invested by the public sector entity would be treated as disposals by the entity; and

(b) the public sector entity's share of assets invested by the other non-related partners would be treated as purchases by the entity in accordance with the relevant standards, including FINANCIAL STATEMENT PRESENTATION, Section PS 1202*, and TANGIBLE CAPITAL ASSETS, Section* PS 3150. [APRIL 2026] [Former paragraph PS 3060.49(b), amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.50 Under FINANCIAL STATEMENT PRESENTATION, Section PS 1202, a public sector entity reports tangible capital assets as assets on the statement of financial position. TANGIBLE CAPITAL ASSETS, Section PS 3150, describes the accounting for the tangible capital assets of a public sector entity. [Former paragraph PS 3060.50, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.51 The tangible capital assets of a business partnership would be reflected in the public sector entity's financial statements in its one-line investment account (the "equity pickup"). The financial statements of a business partnership would be prepared on the same basis as a private sector business. Under the modified equity method, the accounting policies of the business partnership are not modified before determining the amount of the public sector entity's interest in the business partnership. As a result, the entity would not report the tangible capital assets of a business partnership as described in paragraph PS 3060.49 and paragraphs PS 3060.53-.54.

(paragraph PS 3060.52 deleted)

Investments of tangible capital assets by the reporting public sector entity

.53 When a public sector entity invests an asset in a partnership other than a business partnership, the public sector entity would report the other non-related partners' proportionate share of an asset invested by the public sector entity as a disposal. In particular:

(a) Public sector entities would account for the other partners' share of the net carrying amount of the asset as a disposal.

(b) Public sector entities would recognize the net carrying amount in the statement of financial position, and would calculate deferred gains and losses based on the fair value less the net carrying amount of the assets.

Investments of tangible capital assets by the other partners

.54 When a non-related partner invests a tangible capital asset in a partnership other than a business partnership, a public sector entity would report its proportionate share of that tangible capital asset as a purchase. In particular, public sector entities would treat that amount as an increase in the tangible capital assets reported in the statement of financial position.

PRESENTATION AND DISCLOSURE

.55 *Financial statements should disclose, in notes or schedules:*

(a) a description of the nature and purpose of partnerships;

(b) a listing of partnerships, including the public sector entity's share, separately identifying those that are accounted for using the proportionate consolidation method and those that are accounted for by the modified equity method; and

(c) condensed supplementary financial information relative to partnerships. Such financial information should be provided separately for those partnerships accounted for using proportionate consolidation and those accounted for using modified equity, on:

(i) the financial position and results of operations, including:

- *total assets and liabilities segregated by main classification;*
- *net assets or liabilities, separately displaying accumulated other comprehensive income;*
- *total revenues and expenses; and*
- *net operating results for the period, separately displaying other comprehensive income;*

(ii) the nature and amount of any adjustments to net assets or net operating results, as shown in the financial statements of the partnerships, to arrive at the amount included in the public sector entity's statement of financial position or statement of operations; and

(iii)transactions and balances with organizations included in the reporting entity. [OCT. 2006]

.56 *A public sector entity should disclose its share of any contingent assets, contingent liabilities, contractual rights and contractual obligations of partnerships including those contingent assets and contingent liabilities that exist when the public sector entity is contingently entitled to assets or liable for the liabilities of other parties to those partnerships.* [OCT. 1999 *] [Former paragraph PS 3060.56, amended by 2019-2020 annual improvements, retained in Archived Pronouncements.]

.57 *Deferred gains arising from the public sector entity's investment of assets in the partnership should be reported with non-financial liabilities in the public sector entity's statement of financial position.* [APRIL 2026] [Former paragraph PS 3060.57, amended by FINANCIAL STATEMENT PRESENTATION, Section PS 1202, retained in Archived Pronouncements.]

.58 Users of public sector financial statements need an appreciation of the magnitude of financial activities conducted by partnerships and the effect of their operations on the public sector entity. This information would usually be presented on a combined basis.

.59 Separate disclosure of the public sector entity's share of any contingent assets, contingent liabilities, contractual rights and contractual obligations of partnerships would include, as appropriate:

(a) the entity's share of any contingent assets, contingent liabilities, contractual rights and contractual obligations of the partnership; and

(b) the entity's responsibility and entitlement, if any, for the other partners' share of the contingent assets, contingent liabilities, contractual rights and contractual obligations of the partnership.

If the public sector entity guarantees more than its proportionate share of a partnership's liabilities, such a guarantee would be disclosed. [Former paragraph PS 3060.59, amended by 2019-2020 annual improvements, retained in Archived Pronouncements.]

.60 The level of detail disclosed by public sector entities should reflect the highly aggregated nature of financial statements. In deciding the level of detail to disclose, public sector entities should consider the usefulness of the information to the reader in assessing the nature of, and the costs associated with, partnerships.

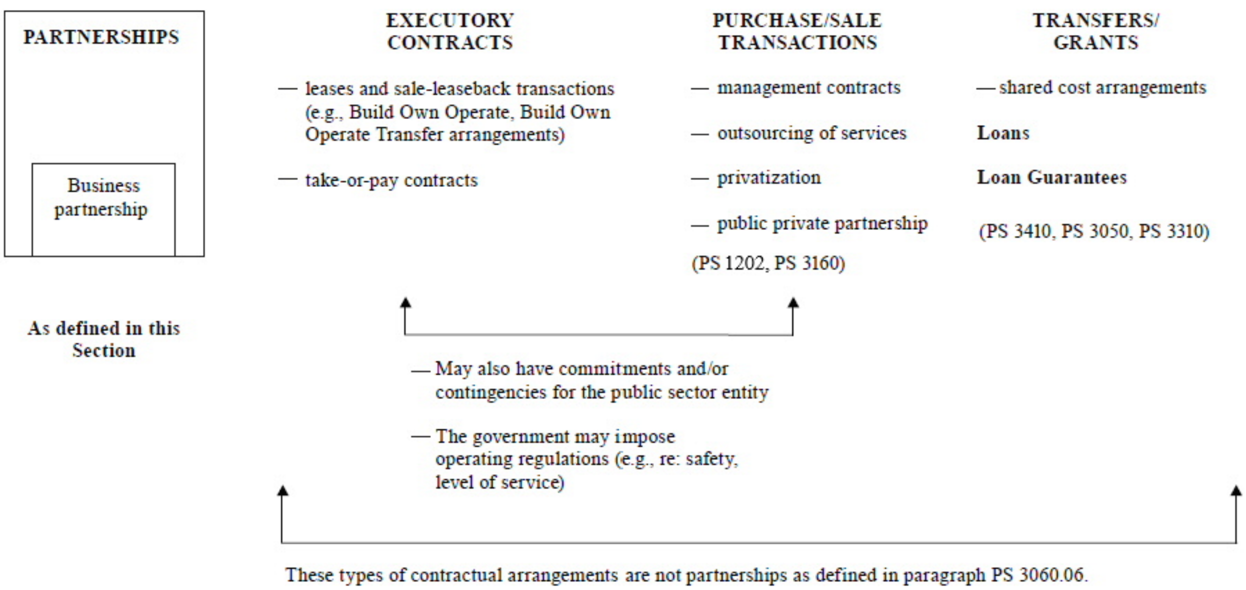
EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

.61 FINANCIAL STATEMENT PRESENTATION, Section PS 1202, issued in October 2023, amended paragraphs PS 3060.05, PS 3060.49, PS 3060.50 and PS 3060.57. 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

TYPES OF CONTRACTUAL ARRANGEMENTS

The following diagram has been prepared to illustrate the types of contractual arrangements. The diagram 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).



Footnotes

1. See Appendix A for a chart showing the various types of contractual arrangements, including partnerships.

2. The definition captures a partnership between two or more government organizations under the same government reporting entity as the reporting entity in this example is either of the government organizations, not the government reporting entity.

3. In arrangements where employees jointly manage an employee benefit program (e.g., a pension plan) with the government, the employees are not considered to be parties outside of the financial reporting entity for the purposes of applying the definition of a partnership.

4. Detailed guidance on the application of proportionate consolidation is set out in ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510.

5. Government organizations are defined in the Introduction to the Public Sector Accounting Handbook.

6. GOVERNMENT REPORTING ENTITY, paragraph PS 1300.28, defines a government business enterprise.

7. GOVERNMENT REPORTING ENTITY, paragraph PS 1300.31, identifies factors for determining the financial self-sufficiency of a government business enterprise. Those factors would be considered when assessing the financial self-sufficiency of a business partnership.

8. Governmental units are defined in BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500.

9. BASIC PRINCIPLES OF CONSOLIDATION, Section PS 2500, ADDITIONAL AREAS OF CONSOLIDATION, Section PS 2510, PORTFOLIO INVESTMENTS, Section PS 3041, and FINANCIAL INSTRUMENTS, Section PS 3450, may also provide relevant guidance in some cases where the arrangement no longer meets the definition of a partnership.

10. A loss occurs when the fair value of the asset invested is less than its net carrying amount in the public sector entity's financial statements.

11. A gain occurs when the fair value of the asset invested is greater than its net carrying amount in the public sector entity's financial statements.

* Editorial change – September 2004.
