

**PSAB**

# At a Glance

Section PS 3060 - Interest in  
Partnerships

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## Partnership

- A partnership is not a government organization but is a contractual arrangement between a public sector entity and a party / parties outside of the reporting entity<sup>1</sup> that has all of the following characteristics:
  - The partners cooperate toward achieving significant clearly defined common goals;
  - The partners make a financial investment in the partnership;
  - The partners share control of decisions related to the financial and operating policies of the partnership on an ongoing basis; and
  - 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.
- Refer to paragraphs PS 3060.11-.22 for more guidance on the elements of a partnership.
- There are three ways a partnership may be structured:
  - Operations under shared control (refer to paragraphs PS 3060.23-.25 for more guidance);
  - Assets under shared control (refer to paragraph PS 3060.26 for more guidance); or
  - Organizations under shared control (refer to paragraphs PS 3060.27-.28 for more guidance).

## Business partnership

- A partnership that has all of the following characteristics:
  - It is a separate legal entity with the power to contract in its own name and that can sue and be sued;
  - It has been delegated the financial and operational authority to carry on a business;
  - It sells goods and services to individuals and organizations other than the partners as its principal activity; and
  - 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.

## Accounting for the public sector entity's interest

### Partnerships other than a business partnership

- A public sector entity's financial statements must recognize the public sector entity's interest in partnerships, excluding business partnerships, using the proportionate consolidation method.
- Under the **proportionate consolidation method**, 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. Refer to paragraph .06 in Section PS 2510, *Additional Areas of Consolidation*, for additional guidance on applying the proportionate consolidation method.

### Business partnership

- Must be accounted for by the modified equity method<sup>2</sup> applied using the public sector entity's share of the business partnership.

## Change in circumstances

- A change in circumstances may affect the valuation of the public sector entity's interest in the partnership and could require a write-down.
- A change in circumstances could also affect whether the arrangement would continue to be treated as a partnership.
  - If the sharing of control, risks and benefits changes to such an extent that the arrangement no longer meets the definition of a partnership the public sector entity's interest would be accounted for in accordance with the guidance in Section PS 1300, *Government Reporting Entity*, or other relevant Public Sector Accounting Standards or Guidelines<sup>3</sup>.
  - If the circumstances change so that the arrangement no longer meets the definition of a business partnership in paragraph PS 3060.07, a change in status of the business partnership would be required.
- A change in accounting treatment that is brought about by events or transactions which reflect a difference in substance from those previously occurring would not be considered a change in accounting policy or classification as set out in Section PS 2120, *Accounting Changes*, and thus the change would not be applied retroactively. However, the change in accounting treatment, the underlying reasons for the change and the financial effects of the change must be disclosed in the public sector entity's financial statements.

<sup>1</sup> The definition captures a partnership between two or more government organizations under the same parent government reporting entity as the reporting entity referred to in the definition is either of the government organizations that are parties to the contractual arrangement, not the ultimate parent government reporting entity. Additionally, in an arrangement where government 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.

<sup>2</sup> Refer to our publication PSAB At a Glance: Section PS 3070 - *Investments in Government Business Enterprises* for more information on the modified equity method.

<sup>3</sup> When the arrangement no longer meets the definition of a partnership, Section PS 2500, *Basic Principles of Consolidation*, Section PS 2510, *Additional Areas of Consolidation*, Section PS 3041, *Portfolio Investments*, and Section PS 3450, *Financial Instruments*, may also provide relevant guidance.

### Accounting for investments of assets

- When a public sector entity invests assets in a partnership and receives an interest in the partnership in exchange, any loss that occurs must be recognized at the time of the initial investment in the Statement of Operations.
- When a public sector entity invests assets in a partnership and receives an interest in the partnership in exchange, any gain that occurs must be reported in the public sector entity's financial statements as a deferred gain at the time of the initial investment only to the extent of the interest of the other non-related partners.
- When a partnership, other than a business partnership, is dissolved, any deferred gain related to the assets invested by the public sector entity must be recognized as revenue.
- For a business partnership:
  - Any deferred gain related to the assets invested by the public sector entity must 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 must 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 to an independent third party by the business partnership, any unamortized portion of the deferred gain must be recognized as revenue at that time.
- **Reporting tangible capital assets**
  - When tangible capital assets are invested in a partnership, other than a business partnership, the public sector entity must report the assets as follows:
    - The public sector entity must treat the other non-related partners' share of assets invested by the public sector entity as disposals (refer to paragraph PS 3060.53 for more guidance); and
    - The public sector entity's share of assets invested by the other non-related partners must be treated as purchases by the public sector entity in accordance with the relevant standards in Sections PS 1201, *Financial Statement Presentation*, and PS 3150, *Tangible Capital Assets* (refer to paragraph PS 3060.54 for more guidance).

### Presentation

- Deferred gains arising from the public sector entity's investment of assets in a partnership must be reported with liabilities in the public sector entity's Statement of Financial Position.

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