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Governmental Accounting Standards Series

Statement No. 60 of the
Governmental Accounting
Standards Board

**Accounting and Financial Reporting for
Service Concession Arrangements**



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. A transferor reports the facility subject to an SCA as its capital asset, generally following existing measurement, recognition, and disclosure guidance for capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenue is recognized by the transferor in a systematic and rational manner over the term of the arrangement.

This Statement also provides guidance for governments that are operators in an SCA. The governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees; it amortizes the intangible asset over the term of the arrangement in a systematic and rational manner. For existing facilities, a

governmental operator's cost may be the amount of an up-front payment or the present value of installment payments. For new or improved facilities, a governmental operator's cost may be its cost of improving an existing facility or constructing or acquiring a new facility.

For revenue sharing arrangements, this Statement requires governmental operators to report all revenues and expenses. A transferor reports its portion of the shared revenues.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. It alleviates the confusion that arises when determining what guidance should be applied in complex circumstances that are not specifically addressed by existing standards. This Statement contributes to the assessment of interperiod equity by reporting up-front payments or the present value of installment payments primarily as deferred inflows of resources, reflecting the acquisition of resources that are applicable to a future reporting period. The provisions of this Statement result in a faithful representation of a governmental

operator's rights under SCAs by reporting rights to access SCA facilities as intangible assets. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 6 discusses the applicability of this Statement.

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Standards Board

Accounting and Financial Reporting for
Service Concession Arrangements

November 2010



Governmental Accounting Standards Board
of the Financial Accounting Foundation
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Statement No. 60 of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Service Concession Arrangements

November 2010

INTRODUCTION

1. This Statement addresses service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The term *public-private partnership* is used to refer to a variety of service arrangements, management arrangements, and SCAs. The terms of an SCA may include payments from the operator to the government for the right to build, operate, and collect user fees on infrastructure or other public assets and may provide for revenue sharing between the government and the operator during the term of the arrangement.

2. Entering into SCAs may be seen as beneficial from the point of view of the government for a variety of reasons. An SCA may provide the government with the ability to leverage existing infrastructure and other public assets to generate additional available resources in the form of up-front payments from an operator for the right to operate such assets. SCAs may be used to facilitate construction and financing of new infrastructure and other public assets and transfer the risks associated with their construction and maintenance to a private entity. Risks associated with the building, financing, and operation of the infrastructure or other public assets are often shared between the government and the private-sector entity. SCAs may be used to provide services to the general populace in a more efficient and cost-effective manner. Determining the accounting and financial reporting for SCAs involves the evaluation of several issues,

including the application of the definitions of financial statement elements and communication methods and consideration of governmental accountability for infrastructure and other public assets and the services that are provided.

3. The objective of this Statement is to improve financial reporting by addressing issues related to SCAs. This Statement will improve consistency in reporting these types of arrangements, thereby enhancing the comparability of the accounting and financial reporting of such arrangements among state and local governments.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

4. This Statement establishes guidance for accounting and financial reporting for SCAs. As used in this Statement, an SCA is an arrangement between a government (the transferor) and an operator¹ in which all of the following criteria are met:

- a. The transferor conveys to the operator the right and related obligation to provide public services² through the use and operation of a capital asset³ (referred to in this Statement as a “facility”) in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility.
- b. The operator collects and is compensated by fees from third parties.⁴
- c. The transferor determines or has the ability to modify or approve what services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.

¹An operator may be a governmental entity (governmental operator) or a nongovernmental entity. References to operators include both governmental and nongovernmental entities. References to *governmental* operators include only governmental entities.

²These services relate to the primary function of the facility (for example, operating a city zoo) rather than ancillary services operated in conjunction with the facility (for example, operating the souvenir stand at a city zoo).

³A capital asset, as defined in paragraph 19 of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, includes infrastructure, equipment, and other tangible and intangible assets.

⁴The scope of this Statement excludes agency relationships (that is, an arrangement in which an operator accepts payments from third parties and remits those payments to the transferor for an established fee).

- d. The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement.
5. SCAs include, but are not limited to:
 - a. Arrangements in which the operator will design and build a facility and will obtain the right to collect fees from third parties (for example, construction of a municipal complex for the right to lease a portion of the facility to third parties)
 - b. Arrangements in which the operator will provide significant consideration in exchange for the right to access an existing facility (for example, a parking garage) and collect fees from third parties for its usage
 - c. Arrangements in which the operator will design and build a facility for the transferor (for example, a new tollway), finance the construction costs, provide the associated services, collect the associated fees, and convey the facility to the government at the end of the arrangement.
6. The provisions of this Statement should be applied in financial statements of state and local governments that are prepared using the economic resources measurement focus.
7. This Statement amends NCGA Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*, paragraph 11, to exclude arrangements meeting the definition of an SCA from the scope of that Statement.

Transferor Accounting and Financial Reporting for Facilities and Related Payments Received from an Operator

8. If the facility associated with an SCA is an existing facility, the transferor should continue to report the facility as a capital asset.
9. If the facility associated with an SCA is a new facility purchased or constructed by the operator, or an existing facility that has been improved⁵ by the operator, the transferor should report (a) the new facility or the improvement as a capital asset at fair value when

⁵Improvements, as defined in paragraph 25 of Statement 34, increase the capacity or efficiency of the facility rather than preserve its useful life.

it is placed in operation, (b) any contractual obligations as liabilities, and (c) a corresponding deferred inflow of resources equal to the difference between (a) and (b).

10. A transferor should recognize a liability for certain obligations to sacrifice financial resources under the terms of the arrangement. Liabilities associated with the SCA should be recorded at their present value if a contractual obligation is significant and meets either of the following criteria:

- a. The contractual obligation directly relates to the facility (for example, obligations for capital improvements, insurance, or maintenance on the facility). This obligation could relate to ownership of the facility or could arise from the transferor's responsibility to ensure that the facility remains fit for the particular purpose of the arrangement.
- b. The contractual obligation relates to a commitment made by the transferor to maintain a minimum or specific level of service in connection with the operation of the facility (for example, providing a specific level of police and emergency services for the facility or providing a minimum level of maintenance to areas surrounding the facility).

11. After initial measurement, the capital asset is subject to existing requirements for depreciation, impairment, and disclosures. However, the capital asset should not be depreciated if the arrangement requires the operator to return the facility to the transferor in its original or an enhanced condition. The corresponding deferred inflow of resources should be reduced and revenue should be recognized in a systematic and rational manner over the term of the arrangement, beginning when the facility is placed into operation. If a liability is recorded to reflect a contractual obligation to sacrifice financial resources in accordance with the provisions of paragraph 10, the liability should be reduced as the transferor's obligations are satisfied. As obligations are satisfied, a deferred inflow of resources should be reported and the related revenue should be recognized in a systematic and rational manner over the remaining term of the arrangement. Improvements made to

the facility by the operator during the term of the SCA should be capitalized as they are made and also are subject to requirements for depreciation, impairment, and disclosures.

12. If an SCA requires up-front or installment payments from the operator, the transferor should report (a) the up-front payment or present value of installment payments as an asset, (b) any contractual obligations as liabilities, and (c) related deferred inflow of resources equal to the difference between (a) and (b). Revenue should be recognized as the deferred inflow of resources is reduced. This revenue should be recognized in a systematic and rational manner over the term of the arrangement. A liability should be recognized if the transferor has contractual obligations that meet the criteria in paragraph 10.

Governmental Operator Accounting and Financial Reporting for the Right to Access Facilities and Related Payments to a Transferor

13. A governmental operator should report an intangible asset⁶ for the right to access the facility and collect third-party fees from its operation at cost (for example, the amount of an up-front payment or the cost of construction of or improvements to the facility). The cost of improvements to the facility made by the governmental operator during the term of the SCA should increase the governmental operator's intangible asset if the improvements increase the capacity or efficiency of the facility. The intangible asset should be amortized over the term of the arrangement in a systematic and rational manner.

14. Some agreements require a facility to be returned in a specified condition. If information that is prominent—that is, conspicuous or known to the governmental

⁶The intangible assets referred to throughout this Statement are not subject to the provisions of Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and should be reported outside of the capital asset classification.

operator—indicates the facility is not in the specified condition and the cost to restore the facility to that condition is reasonably estimable, then a liability and, generally, an expense to restore the facility should be reported. Governmental operators are not required to perform additional procedures to identify potential condition deficiencies beyond those already performed as part of their normal operations or those that may be required by the agreement.

Accounting for Revenue Sharing Arrangements

15. Some SCAs include provisions for revenue sharing. A governmental operator that shares revenues with a transferor should report all revenue earned and expenses incurred—including the amount of revenues shared with the transferor—that are associated with the operation of the facility. In this circumstance, the transferor should recognize only its portion of the shared revenue when earned in accordance with the terms of the arrangement. If revenue sharing arrangements contain amounts to be paid to the transferor regardless of revenues earned (for example, annual installments in fixed amounts), then the present value of those amounts should be reported by the transferor and governmental operator as if they were installment payments at the inception of the arrangement, consistent with paragraphs 12 and 13.

Disclosures Related to Service Concession Arrangements

16. The following information should be disclosed in the notes to financial statements of transferors and governmental operators for SCAs:

- a. A general description of the arrangement in effect during the reporting period, including management's objectives for entering into it and, if applicable, the status of the project during the construction period
- b. The nature and amounts of assets, liabilities, and deferred inflows of resources related to an SCA that are recognized in the financial statements

c. The nature and extent of rights retained by the transferor or granted to the governmental operator under the arrangement.

17. Some arrangements may include provisions for guarantees and commitments. For example, a transferor may become responsible for paying the debt of the operator in the event of a default, or the arrangement may include a minimum revenue guarantee to the operator. For each period in which a guarantee or commitment exists, disclosures should be made about guarantees and commitments, including identification, duration, and significant contract terms of the guarantee or commitment.

18. Governments should include the information required by paragraphs 16 and 17 in the notes to the financial statements. Disclosure information for multiple SCAs may be provided individually or in the aggregate for those that involve similar facilities and risk.

EFFECTIVE DATE AND TRANSITION

19. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. In the first period that this Statement is applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net assets for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

<p>The provisions of this Statement need not be applied to immaterial items.</p>

*This Statement was issued by unanimous vote of the seven members of the
Governmental Accounting Standards Board.*

Robert H. Attmore, *Chairman*
Michael D. Belsky
Michael H. Granof
David E. Sundstrom
Jan I. Sylvis
Marcia L. Taylor
James M. Williams

Appendix A

BACKGROUND

20. Agreements between governments and private entities or other governments, sometimes referred to as public-private or public-public partnerships, have become more prevalent as governments have sought alternative ways to provide services to their constituencies on a more efficient and cost-effective basis. These arrangements often result in governments transferring existing or newly constructed facilities and the obligation to provide certain services to an external entity.

21. Existing guidance applicable to these arrangements includes the lease accounting provisions found in NCGA Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*, and the financial reporting entity provisions found in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Governments have asked questions about whether these standards adequately address the variety of partnerships that have been formed or that have been explored. This issue was discussed with the Governmental Accounting Standards Advisory Council (GASAC) in July 2006. The potential project received strong support from the GASAC. As a result of the perceived need for additional guidance and the feedback from the GASAC, a project on public-private partnerships was added to the GASB's research agenda in August 2006.

22. The International Public Sector Accounting Standards Board (IPSASB) added a project on service concession arrangements (SCAs), a type of public-private partnership, to its agenda in November 2006. Due to a mutual interest in this topic, the staffs of the IPSASB and GASB worked together to conduct research regarding the nature and extent

of the use of public-private partnerships around the world, as well as potential accounting and financial reporting issues related to these arrangements. GASB staff also served as the lead staff on the IPSASB's project until March 2008, when the IPSASB Consultation Paper, *Accounting and Financial Reporting for Service Concession Arrangements*, was issued.

23. Based on the research findings and further GASAC feedback, the project was moved to the GASB's current agenda in April 2008 and deliberations began in May 2008.

24. A task force was assembled comprising 15 persons broadly representative of the GASB's constituency. The task force members reviewed and commented on papers prepared for the Board's deliberations and on drafts of this Statement.

25. In June 2009, the Board issued an Exposure Draft, *Accounting and Financial Reporting for Service Concession Arrangements*. The Board received 26 responses to the Exposure Draft. As explained in Appendix B, Basis for Conclusions, the Board's redeliberation of certain issues in light of comments received resulted in a number of changes to the June 2009 Exposure Draft. Accordingly, the Board decided to issue a revised Exposure Draft to provide constituents with an opportunity to provide further input on those issues. As discussed throughout the Basis for Conclusions of this Statement, the comments and suggestions from organizations and individuals that responded to the original Exposure Draft contributed to the Board's redeliberations of the requirements.

26. In June 2010, the Board issued a revised Exposure Draft, *Accounting and Financial Reporting for Service Concession Arrangements*. The Board received 22 responses to the

revised Exposure Draft. As discussed throughout the Basis for Conclusions of this Statement, the comments and suggestions from the organizations and individuals who responded to the revised Exposure Draft also contributed to the Board's deliberations in finalizing the requirements of this Statement.

Appendix B

BASIS FOR CONCLUSIONS

27. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope and Applicability

28. The term *public-private partnership* (PPP) has been applied to a wide variety of arrangements between a transferor and an operator that may include one or more of the following circumstances:

- An operator provides direct services or management services either to the transferor or to third parties (for example, a contract to provide janitorial services to the government or a contract to provide counseling services to qualifying individuals).
- An operator is awarded the right to operate a concession in conjunction with infrastructure or another public asset (for example, a concession to sell food and beverages at a city park).
- An operator designs, builds, and finances construction of a facility, such as a prison, hospital, or highway.
- An operator operates and maintains a facility, such as a prison, hospital, or highway.
- An operator takes ownership of a facility.

In considering the initial scope of this project, the Board viewed a PPP as an arrangement for placing a service with an operator for a specific period of time. The project scope was first narrowed to focus on services that benefit the general public and are subject to a PPP, rather than benefiting the government itself. For example, if a government is required to provide waste management services and enters into an arrangement through which an operator is obligated to provide those services to the citizenry, this arrangement was considered to be within the scope of the project at that time; however, an arrangement in

which the operator provides cleaning services for the government's offices would be considered a service and management arrangement (SMA). As originally modified, the Board included in the scope of the project that led to this Statement all PPPs that placed a service benefiting the general public with an operator for a specified period of time.

29. Respondents to the June 2009 Exposure Draft noted that governments could convey the rights to use trademarks, licenses, or slogans to another party, especially in the case of state lotteries. The Board acknowledged that intangible assets should be included in the scope of this Statement, and language was added to provide that clarification.

30. As the Board evaluated the nature of arrangements that some might consider to be PPPs and the potential accounting provisions for various circumstances, it determined that arrangements in which the third party only designs and builds a capital asset for the government (as described in paragraph 31), vendor arrangements (described in paragraph 32), SMAs (described in paragraph 33), arrangements in which the government (rather than users) pays the operator for services (described in paragraph 34), and privatizations (described in paragraph 35), should not be included in the scope of this Statement.

Arrangements in Which a Third Party Designs and Builds a Capital Asset

31. Using traditional procurement methods, the design and construction elements are bid separately. There are arrangements for construction projects in which both the design and construction aspects are contracted together to a third party. A design and build arrangement is entered into for the purpose of obtaining a service (construction); the service is not being provided to the general public but, rather, to the government itself. Therefore, the Board concluded that these arrangements should not be included in the

scope of this Statement. Existing provisions for construction of capital assets are sufficient to provide guidance for these transactions.

Vendor Arrangements

32. Some respondents questioned whether the scope of the standard was meant to include arrangements in which a government contracts with vendors to provide ancillary services using a public asset, for example, vendors using a stadium as a venue to sell food or souvenirs. Respondents also expressed concern with the use of the term *concession* to describe this Statement's targeted PPPs because this term is commonly associated with vendor contracts. The Board acknowledged that while these types of vendor contracts could be viewed as PPPs, existing guidance for accounting for these contracts is adequate and concluded that these types of arrangements should be excluded from the scope of this Statement. The Board also recognized the need to clarify the scope of this Statement to more explicitly exclude such ancillary services that are operated in conjunction with the facility, as opposed to services that relate to the primary function of the facility itself.

Service and Management Arrangements

33. In a service contract, a government contracts with a separate entity for services it would otherwise have performed. For example, a government may enter into a service contract with another entity for the sweeping and snow removal from city streets and sidewalks. These services generally are performed by the separate entity in accordance with requirements set by the government. A management contract builds on a service contract by placing management responsibilities for the service with the separate entity. Using the previous example, in contrast to a service contract, a management contract would make the separate entity responsible for management functions associated with the operation of the service, such as hiring employees, interacting with other vendors, and

preparing budgetary information related to the operation of the service, in addition to the actual sweeping and snow removal from city streets. In both cases, the relationship between the government and the separate entity is similar to that of a purchaser and vendor, and the arrangements are generally short-term. Risk and responsibility for delivery of the service largely remains with the government. These arrangements may be referred to as *outsourced* or *contracted-out services*. These arrangements may or may not involve the use of a facility. In addition, a government may directly compensate the vendor for the services provided, or a government may compensate a vendor by allowing the vendor to collect and retain all or a portion of the fees from providing the service they are contracted to provide. The Board recognized that accounting for SMAs is not a principal issue. Existing guidance for accounting for expenses is adequate for these purposes because the accounting for these types of arrangements can be viewed similarly to accounting for vendor or service contracts. The potential issue with SMAs is whether it is essential for users of financial statements to be made aware through disclosure of what SMAs a government has engaged in. The Board was concerned with the potential for a burdensome level of disclosure. Because some governments have a large number of SMAs, the number of arrangements potentially subject to a disclosure requirement could be voluminous. As a result, users of financial statements could be overwhelmed by the large volume of information that may hold little or no decision utility and could obscure information that is essential for their understanding of the financial statements. Because the Board was not aware of specific concerns about the need for additional disclosure requirements related to SMAs, the Board concluded that SMAs should be excluded from the scope of this Statement.

Arrangements in Which the Transferor Makes Payments to the Operator

34. Some PPP arrangements involve an operator constructing and operating a facility owned by the transferor, with the operator receiving payment for these construction and operations services from the transferor, rather than from user fees. When considering guidance for accounting for these arrangements, the Board determined that regardless of whether the stated payment terms explicitly identify the construction and the operations elements, the arrangements are in essence a combination of these two elements. Consequently, payments required under the terms of the arrangement should be allocated between the two elements so that they can be accounted for according to their nature. Payments related to the construction element should be reported as construction in progress and, at completion, as a capital asset subject to existing guidance for capital assets. The operations portion of the arrangement is an SMA, and payments related to the operations elements should be accounted for according to existing guidance for expenses, as described in paragraph 32. Because existing guidance is sufficient for both elements of these arrangements, the scope of this Statement excluded arrangements involving construction and operations payments made by the transferor to the operator.

Privatization

35. A privatization occurs when a government permanently transfers a capital asset or service to an operator, generally through sale. The transferor divests itself of responsibility for the facility and the related delivery of services (other than possible regulatory authority). Privatization through the sale (or transfer) of capital assets should be reported similar to any other capital asset sale or transfer. Existing lease accounting requirements and provisions for sales and transfers of capital assets are sufficient to provide guidance

for these transactions. Therefore, the Board concluded that privatizations should not be included in the scope of this Statement.

Governmental Operators

36. Through the research conducted regarding the variety of PPP arrangements, it became clear that these arrangements often are between a government and a private entity; however, sometimes these arrangements may be between a government and another government. The accounting and financial reporting will not vary for the transferor government regardless of whether the operator is a private entity or another government. Because governments sometimes participate as the operator in these arrangements, the Board concluded that accounting and financial reporting for governmental operators should be included in the scope of this Statement.

Scope Criteria

37. The Board concluded that the basic control criteria proposed in the IPSASB's Consultation Paper (see paragraph 22 of this Statement) was a conceptually sound basis for developing the scope criteria. These criteria essentially are control over (a) what services the operator is required to provide, (b) to whom the services are provided, and (c) the price ranges or rates that can be charged for services, as well as (d) retention of a significant residual interest in the service utility of the facility at the end of the arrangement. The combination of control over the service provided by the facility during the arrangement and control over the facility at the end of the arrangement preserves the objectives for public use of the facility both during and after the SCA. In the June 2009 Exposure Draft, a transferor was considered to control the use of the facility if both of the following criteria, either explicitly or implicitly, were met:

- a. The transferor determines or regulates all of the following:
 - (1) What services the operator is required to provide
 - (2) To whom the operator is required to provide the services
 - (3) The price ranges or rates that can be charged for the services.
- b. The transferor is entitled to—through ownership or otherwise—significant residual interest in the service utility of the facility at the end of the arrangement.

38. Some respondents to the June 2009 Exposure Draft expressed concern with the use of the word *regulates* in the control criteria. These respondents argued that the perception of governments as *regulators* and the existence of statutes providing transferor governments with an oversight role would ensure that transferors would always regulate services, clientele, and prices, to some extent. The Board considered these concerns and amended the wording to replace *regulates* with *has the ability to modify or approve*.

39. The June 2009 Exposure Draft included Alternative Views by some Board members on the accounting for arrangements in which only some control criteria were met. The guidance in the June 2009 Exposure Draft would have required the transferor to derecognize the facility and report a gain or loss upon commencement of the arrangement to reflect a transfer of the facility to the operator if the control criteria were not met. Some Board members disagreed with the resulting total immediate gain or loss recognition. After considering respondent comments, the Board concluded that because the substance of arrangements in which control of the facility is retained by the transferor is sufficiently different from the substance of arrangements in which control shifted to the operator, the scope of the standard should be modified to exclude those arrangements in which control of the facility is not retained by the transferor. The Board believes that those excluded arrangements generally would be reported subject to existing lease accounting requirements.

40. One respondent to the revised Exposure Draft expressed concern that consideration given from an operator to the transferor was not a factor specifically identified within the criteria that determine if an arrangement would be within the scope of this Statement. The Board acknowledged that a government may enter into an arrangement in which it conveys to an operator the right and related obligation to provide public services through the operation of a capital asset; however, it does so to gain economic relief by reducing future costs rather than in exchange for consideration. As there is not significant up-front consideration provided by the operator, the Board believes that those arrangements comprise SMAs rather than SCAs and therefore are excluded from the scope of this Statement. The Board believes an arrangement that provides for future economic relief by itself does not constitute an SCA. To clarify that distinction, the Board concluded that *significant* consideration should be part of an arrangement for it to be considered within the scope of the Statement.

41. Including the criterion that the transferor should be entitled to a significant residual interest in the service utility of the facility subject to an SCA in the scope of this Statement serves to separate SCAs from privatization. The residual interest criterion also serves to separate SCAs from regulatory arrangements (for example, arrangements in which a government only regulates certain aspects of the provision of utilities). In the latter arrangements, the operator has control over the use of the facility for all of its useful life. In most cases, a significant residual interest in the service utility of the underlying facility will exist at the end of an SCA because of the long-lived nature of the facility and the frequent inclusion of a contractual requirement for the operator to return the property in good condition at the end of the arrangement. In instances in which the contract does

not require return of the facility at a stated condition level, fulfillment of maintenance requirements throughout the term of the arrangement suggests that the property is expected to possess significant service utility at the end of the SCA.

42. In circumstances in which the facility is expected to possess significant service utility at the end of the SCA, it would have future service potential or economic benefit and, therefore, would likely have a significant residual value. Assessment of whether the residual value is significant should be made based on the service utility of the facility at the end of the arrangement rather than using a fair value notion. The Board believes that because of the long duration of many of these arrangements, application of a discounting technique to estimate fair value may produce the inappropriate result that a residual interest is not significant even if the facility is returned with substantial remaining service utility.

Governmental Fund Accounting and Financial Reporting

43. The Board determined that guidance for accounting and financial reporting in governmental fund financial statements should be excluded from the scope of this Statement. For some aspects of the reporting of SCAs by transferors, such as reporting capital assets, residual interests, and revenue sharing, existing guidance for governmental funds is clear. Capital assets are reported in governmental funds as expenditures when purchased. Consequently, capital assets associated with existing facilities would have been reported as expenditures when purchased, and no additional reporting is needed at the time the existing facility becomes subject to an SCA.

44. The Board deliberated appropriate accounting for the receipt of up-front or installment payments received by transferors in governmental fund financial statements.

The Board acknowledges that there are various interpretations of existing guidance on accounting in governmental fund financial statements. However, the Board ultimately decided not to provide guidance in this Statement because the Board is currently considering issues of recognition in financial statements prepared using the current financial resources measurement focus in its conceptual framework project on recognition and measurement attributes. The Board concluded that it would be premature to provide specific guidance for accounting for up-front or installment payments until the recognition concepts are finalized. The Board also recognized that the circumstances in which up-front or installment payments would be reported in governmental funds would be limited because the scope of this Statement is limited to arrangements involving collection of user fees, which most frequently are reported in proprietary funds. Until new guidance is provided for arrangements reported in governmental funds, governments should consider the disclosure guidance in Accounting Principles Board Opinion No. 22, *Disclosure of Accounting Policies*.

45. Guidance for financial reporting in the governmental fund financial statements of governmental operators also was excluded from the scope of this Statement. Some respondents expressed concern over the exclusion of government fund accounting and financial reporting guidance; however, the Board believes that the activities of governmental operators will meet the criteria that require the use of enterprise funds in paragraph 67c of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, because “the pricing policies of the activity establish fees and charges designed to recover its costs, including capital

costs (such as depreciation or debt service).” If that criterion is met, governmental operators should report SCA activities in enterprise funds.

Transferor Accounting for Facilities

46. For existing facilities that become subject to an SCA, the Board determined that a transferor should continue to report the facility as its capital asset. Entering into an SCA and providing an operator with access to the facility do not constitute a transaction that would give rise to a change in the current carrying value of the facility. The Board believes that permitting an operator access to the facility when the transferor maintains control, regardless of whether the transferor receives an up-front payment or will receive installment payments, does not constitute a sale of the facility. Furthermore, there has been no event or change in circumstance that would affect the remaining service potential of the facility.

47. For new facilities constructed or acquired by the operator or improvements made by the operator to existing facilities, the Board determined that transferors should report those assets at fair value. Purchases of capital assets by the transferor are reported at historical cost. For facilities included in arrangements within the scope of this Statement, the transferor does not bear a cost for acquiring the facility; the operator receives user fees that are intended to compensate the operator both for its cost of constructing or improving the facility and for operating it during the term of the SCA. The Board acknowledges that the fair value of the facility is conceptually equivalent to what the transferor might have paid to have the facility constructed for it.

48. The Board concluded that a transferor should not capitalize all changes the operator makes to the facility; rather, only those changes that increase its service capacity or extend

its service life should be capitalized. The Board used guidance similar to the guidance regarding infrastructure improvements in Statement 34 that improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets. A transferor should increase the deferred inflow of resources by the fair value of the improvement at the time the improvement is placed into operation, less any additional obligations that are recognized as liabilities.

49. The Board did not include a requirement for the transferor to report a new facility or an improvement to an existing facility during the construction period. The Board recognized that a transferor may not have specific information about the extent of progress at the end of a reporting period necessary to estimate a fair value and that this estimate of fair value of construction in progress may have little decision utility for users of financial statements. Some respondents disagreed, noting that a transferor should record any construction in progress because failing to include it, in their opinion, would be misleading. They also noted that it would be unlikely that a transferor would not have information about the extent of progress in construction of a facility. The Board acknowledges that the IPSASB would require recognition and capitalization of construction in progress in their Exposure Draft, *Service Concession Arrangements: Grantor*. Nevertheless, the Board continues to believe that the time and effort to track costs and maintain records for an operator's construction in progress outweighs the benefits that may be received by the users of the financial statements. For this reason, the Board concluded this Statement should not require transferor governments to report an asset for an operator's construction in progress on new or improved facilities subject to an SCA.

50. The Board discussed arrangements in which an operator is required to return a facility to the transferor in a specified condition and whether it is appropriate for a transferor to record depreciation of the facility if, at the end of the arrangement, the transferor will receive a facility that is purported to be in the same condition as it was at the beginning of the arrangement. In its deliberations regarding depreciation, the Board considered requiring depreciation as normally required throughout the term of the arrangement or requiring a component approach to depreciation, with individual components of a facility being depreciated separately. However, the Board ultimately decided that depreciation should not be reported in these arrangements because the facility will be returned to the transferor in its original condition. It would be inappropriate to reduce the carrying value of the facility through depreciation because the transferor will not realize the depreciation that occurs throughout the term of the arrangement. Therefore, the Board concluded that in these arrangements, a transferor should not depreciate the facility over the term of the arrangement. The Board analogized the concept of not recording depreciation to the modified approach that was introduced in Statement 34, which can be applied for infrastructure that is being preserved in a specific manner.

Transferor Accounting for Up-Front or Installment Payments

51. The June 2009 Exposure Draft would have required that up-front payments or the present value of installment payments received or to be received by the transferor pursuant to an SCA be reported as a liability, because the Board considered the payments to have met the definition of a liability as discussed in Concepts Statement No. 4, *Elements of Financial Statements*, paragraph 17. That paragraph states that, “*Liabilities* are present obligations to sacrifice resources that the government has little or no discretion to avoid.”

The Board believed that these payments represented a liability because the transferor has sacrificed a right to financial resources or other use of the facility underlying the SCA during the term of the arrangement and is actively involved in fulfilling the contractual responsibilities. Some respondents did not agree with this approach, citing the Concepts Statement 4 definition of deferred inflows of resources. After reviewing the respondent comments, the Board reconsidered its earlier decision and concluded that a transferor's receipt of an up-front payment or the present value of installment payments generally would be more appropriately reported as a deferred inflow of resources. A deferred inflow of resources as defined in Concepts Statement 4, paragraph 34 is "an acquisition of net assets by the government that is applicable to a future reporting period." The Board believes that the present value of consideration received generally should be recorded as a deferred inflow of resources because it represents consideration that is intended to cover the duration of the agreement and thus is "applicable to future periods" rather than being a representation of an "obligation to sacrifice resources." The amount of consideration is not an obligation that is expected to be settled through repayment, and the Board is concerned that including the entirety of the amount as a liability may confuse readers who are trying to assess the magnitude of claims against the government's financial resources. While a transferor has an obligation to provide an operator with access to the facility, the *value* of the transferor's obligation to allow access does not vary according to the amount of consideration received. Therefore, the fair value of a contributed asset or the present value of consideration received would not properly measure this obligation. The Board is not aware of a reasonable, practical proxy that would reliably measure the obligation to *allow access*. To the extent that the agreement does not impose upon the transferor an obligation

to sacrifice financial resources, the Board believes that a transferor's receipt of an up-front payment or the present value of installment payments is more faithfully represented as an acquisition of net assets applicable to a future reporting period.

52. The Board concluded that transferors should recognize revenue arising from up-front or installment payments in a systematic and rational manner. The reduction of the deferred inflow of resources and recognition of revenue should be proportionate to the access and use of the facility. Given the wide variety of SCAs and facilities subject to SCAs, the Board determined that application of professional judgment in selecting an amortization method is appropriate, and this Statement only limits the methods to those that are systematic and rational.

53. The Board discussed arrangements in which a transferor has specific contractual obligations to sacrifice financial resources in an SCA and concluded that a transferor should record liabilities for those contractual obligations. The Board believes that those contractual obligations are such that the amount paid, or to be paid, by the operator to the transferor has been increased because the transferor has agreed to those conditions. Consequently, the transferor has been compensated specifically for those obligations, and liabilities should be recognized. Entering into an SCA may create liabilities that were previously unrecorded obligations because the transferor is now obligated to a party external to the government (the operator).

54. The Board established two criteria under which certain contractual obligations should be classified as liabilities. A contractual obligation should be classified as a liability if it meets either of the criteria. The first criterion is that the contractual obligation

directly relates to the facility subject to the SCA (for example, obligations for capital improvements, insurance, or maintenance on the facility). This obligation could relate to ownership of the facility or could arise from the transferor's responsibility to assure that the facility remains fit for the particular purpose of the arrangement. The Board believes that an operator would compensate a transferor for this obligation because it represents a sacrifice of resources an operator would otherwise have been expected to make under the arrangement or because it represents an increase in the value of the facility. To meet this criterion, a contractual obligation would need to relate to the facility itself rather than to assets surrounding the facility (for example, a contractual obligation to maintain a parking garage subject to an SCA would meet this criterion; however, a contractual obligation to maintain the sidewalks surrounding the parking garage at an unspecified level of maintenance would not).

55. The second criterion is that the contractual obligation relates to a promise made by the transferor to maintain a minimum or specific level of service in connection with the operation of the facility (for example, providing a specific level of police and emergency services for the facility or providing a minimum level of maintenance to areas surrounding the facility). By agreeing to provide a specific level of service, the transferor sacrifices its discretion to provide services at whatever level it would determine to be appropriate. A transferor could have previously performed these services; however, in most cases it would not have reported a liability for those services. The requirement in the criterion that a transferor's promise is to provide a *specific* level of service is an indication that the transferor has given up its discretion to decide what level of service to provide. If the transferor retains its discretion over the level of service to provide, a liability should not

be recorded. On the other hand, the Board believes a liability should be reported if the transferor has promised to provide a set amount of services because it is now contractually bound to the operator to sacrifice resources in order to provide a specific level of service. The Board believes that an operator has compensated a transferor for agreeing to provide a specific level of service because these services make the facility more valuable or they represent services an operator would otherwise have provided in order to operate the facility. This criterion does not relate to the facility itself; rather, it is associated with the provision of services that are incidental to the facility and are connected with the facility's operation.

56. A respondent to the revised Exposure Draft questioned the timing of the recognition of revenue in the flows statement as a transferor's obligations are satisfied—specifically as it relates to obligations associated with capital improvement. After considering this comment, the Board concluded that the Statement did not clearly address when to recognize revenue when a transferor's obligation to make a capital improvement has been satisfied. To address this issue, the Board considered two approaches: (a) the transferor should recognize revenue in its entirety when the capital improvement has been made or (b) revenue should be deferred when the capital improvement has been made and recognized in a systematic and rational manner over the remaining term of the arrangement. The Board concluded that the latter approach was more appropriate, as it was consistent with how the Statement addresses the receipt of capital assets, improvement to capital assets, and up-front or installment payments.

57. Installment payments under this guidance are considered to be fixed amount payments an operator would make to the transferor as part of the consideration paid to

obtain the right to use a facility. An operator also may be required to make payments to the transferor as part of a revenue sharing arrangement that would be dependent on the amount of revenue collected from operating the facility, the volume of customers served, or some other variable. Both payments constitute consideration from the operator to the transferor; however, the difference between the two arrangements is the certainty of the payments. Installment payments are known, fixed amounts, while payments from revenue sharing are contingent upon some variable. The Board believes that installment payments should be recognized as assets at the commencement of the arrangement and revenue should be recognized in a systematic and rational matter over the course of the arrangement, while contingent revenue sharing payments should be recognized as revenue by the transferor when the event upon which the payments are dependent occurs, according to the terms of the agreement.

Governmental Operator Accounting

58. The Board believes that a governmental operator should report an intangible asset at the cost incurred to acquire its right to access the facility. The governmental operator's cost is either the up-front payment or present value of installment payments paid or to be paid to the transferor for the use of a facility or the cost of construction for newly constructed or improved facilities. For existing facilities, up-front or installment payments are directly exchanged for the right to access the facility and, consequently, there is no other potential measurement basis to consider in the present financial reporting model. For newly constructed or improved facilities, the Board considered whether the element of constructing or improving a facility is separable from the element of exchanging that newly constructed or improved facility for the right to access the facility. If the elements

are in fact separable, then the exchange of the new or improved facility for the right to access the facility could be considered a nonmonetary exchange that should be reported at fair value (such as the value that the governmental operator would have charged for constructing or improving the facility). The Board considered this approach but ultimately determined that the act of constructing or improving the facility is part of a more complex arrangement rather than a separate transaction. The Board determined, therefore, that reporting the intangible asset at fair value and reporting an associated gain or loss arising from the revaluation would not be appropriate.

59. The intangible asset of a governmental operator, although it bears some relation to a capital asset, is not within the scope of Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The scope of Statement 51 excludes intangible assets that meet the basic criteria of an intangible capital asset but were acquired or created primarily for the purpose of directly obtaining income or profit. The Board believes that the intangible asset of a governmental operator meets this exclusion. Consequently, additional guidance for reporting in subsequent periods is provided. The Board determined that these intangible assets should be amortized in a systematic and rational manner, leaving to professional judgment the selection of the specific method that is most appropriate to the arrangement.

60. As the intangible assets are outside the scope of Statement 51, the Board concluded they should be reported outside the capital asset classification. One respondent to the revised Exposure Draft requested specific guidance as to where these intangible assets should be reported. Generally, GASB standards are not that prescriptive regarding the classification of specific assets and liabilities. As such, the Board concluded that existing

literature should be considered to address where these intangible assets should be reported, subject to the same considerations applicable to other assets in a classified or order of liquidity format.

61. The Board recognized that SCAs that require the governmental operator to return the facility in a specified condition may give rise to a liability due to the fact that this condition requirement is imposed on the governmental operator by the transferor as a part of a contractual arrangement. Thus, any deficiency between the current condition and the specific condition is required to be remedied before the facility is returned. The estimated cost to restore the facility to the specified condition meets the definition of a liability. For cost-benefit reasons, the Board determined that governmental operators should not be required to make an assessment as to whether the facility is at the specified condition level only for financial reporting purposes; rather, the Board concluded that a liability only should be measured when information already known from the governmental operator's activities of managing the facility indicate that the condition of the facility is below the specified level. The Board also determined that a liability should be reported only when the amount necessary to restore the facility to the specific condition level can be reasonably estimated. The Board concluded that additional guidance should be provided stating that an expense would generally be reported with this liability because the obligation represents the responsibility to maintain the facility at a specified condition and not to make improvements by increasing the efficiency or capacity of the facility.

Revenue Sharing

62. In arrangements involving revenue sharing, the Board had determined in the June 2009 Exposure Draft that either the transferor or the governmental operator should report

the revenues and expenses for the service provided depending on which entity was accountable for the services. The Board concluded that in most cases, this will be the operator because it has access to the facility and physically provides services. The Board also had concluded that the operator may have a limited financial risk associated with the provision of services. This would be the case if the operator retains only a fixed percentage or fixed dollar amount of revenue per customer. In this circumstance, the operator is acting in an agent capacity; thus, it is the transferor who is accountable for the operations and, therefore, should be reporting the revenues and expenses associated with the operation. Some respondents argued that it would be inappropriate for the transferor to report the gross amount of revenues and expenses associated with the facility because an operator earns these revenues by operating the facility and collecting third-party user fees; in many cases, the transferor's receipt of a portion of these revenues represents compensation for allowing the operator to access the facility. Those respondents stated that the transferor does not earn the total amount of revenues and should not report the gross amount. The Board generally agreed with those respondents and concluded that arrangements in which the operator is acting as an agent for the transferor should be excluded from the scope of the Statement. Accordingly, the Board added language to the scope criteria stating that an operator collects *and is compensated by* fees from service recipients and a footnote that specifically excluded agency relationships from the scope of the Statement.

Guarantees

63. The Board concluded that specific guidance for guarantees and commitments did not need to be developed for this Statement because the current guidance in FASB Statement

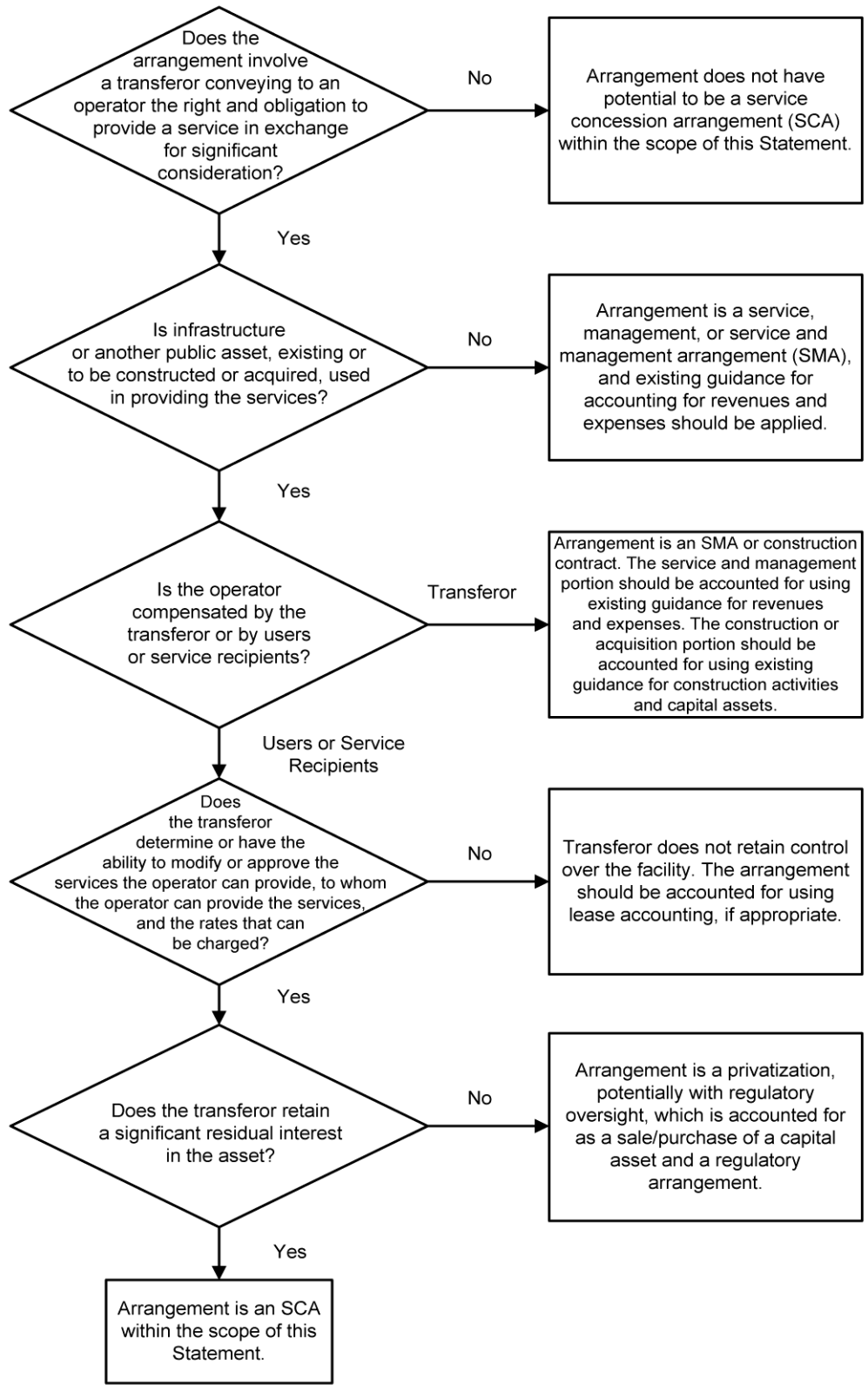
No. 5, *Accounting for Contingencies*, adequately addresses the accounting and disclosures for the guarantees and commitments of an SCA. The criteria in FASB Statement 5 are appropriate for determining when a commitment or guarantee should be accrued in the transferor's financial statements, and the disclosure required under this Statement would provide users of the financial statements with the appropriate information on the commitment or guarantee.

Appendix C

FLOWCHART FOR DETERMINING THE APPLICABLE ACCOUNTING AND FINANCIAL REPORTING GUIDANCE FOR PUBLIC-PRIVATE OR PUBLIC-PUBLIC PARTNERSHIP ARRANGEMENTS

64. The following flowchart is intended to aid in determining whether a public-private or public-public partnership arrangement is within the scope of this Statement and, if not, what existing accounting and financial reporting guidance would be applicable. The flowchart is nonauthoritative and should not be used in place of the Statement itself.

Flowchart for Determining the Applicable Accounting and Financial Reporting Guidance for Public-Private or Public-Public Partnership Arrangements



Appendix D

ILLUSTRATIONS

65. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the approach illustrated. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here. Existing standards may require disclosures in addition to those illustrated.

Illustration 1: Service Concession Arrangement Involving an Existing Tollway

Facts and Assumptions: A State, through its State Department of Transportation (SDOT), the transferor, enters into an arrangement with the Metropolitan Tollway Authority (MTA), a governmental operator, involving the Pelton Tollway, a capital asset currently being reported by the State in the Tollway Authority enterprise fund at a carrying amount of \$1 billion. The SDOT receives an up-front payment of \$3 billion from the MTA, in return for which the MTA receives the right to operate the tollway and receive and retain toll revenues for a period of 75 years. The arrangement meets all criteria in paragraph 4 of this Statement to qualify as a service concession arrangement. The transferor has no contractual obligations to sacrifice financial resources under this agreement. The MTA is not a component unit of the State's financial reporting entity.

Accounting at commencement of the arrangement:

1. The State would continue to report the tollway as a capital asset. The State would recognize a deferred inflow of resources in the amount of \$3 billion for the up-front payment received from the MTA.
2. The MTA would recognize an intangible asset in the amount of \$3 billion, the amount paid to SDOT for access to the tollway.

Illustrative Disclosures

(For the State)

Note X: Service Concession Arrangement for State Tollway

At the end of the current year, the State, through its State Department of Transportation (SDOT) entered into an agreement with the Metropolitan Tollway Authority (MTA), under which the MTA will operate, maintain, and retain tolls from the Pelton Tollway for the next 75 years. The MTA is required to operate and maintain the tollway in accordance with the State Tollway Concession Contract; this agreement also regulates the rates at which tolls may be charged and increased. The SDOT received from the MTA a lump-sum payment of \$3 billion. The SDOT plans to use the proceeds from the up-front payment to finance infrastructure investment throughout the state. The SDOT reports the tollway as a capital asset with a carrying amount of \$1 billion at year-end and reports a deferred inflow of resources in the amount of \$3 billion at year-end pursuant to the service concession arrangement.

(For the MTA)

Note X: Service Concession Arrangement for State Tollway

At the end of the current year, the MTA entered into an agreement with the State Department of Transportation (SDOT), under which the MTA will operate and collect tolls from the Pelton Tollway for the next 75 years. The MTA paid the SDOT a lump-sum payment of \$3 billion and is required to operate and maintain the tollway in accordance with the State Tollway Concession Contract. The MTA entered into this agreement to enhance its revenue stream from tolls and related concession revenues. The MTA has

recognized an intangible asset in the amount of \$3 billion at year-end pursuant to the service concession arrangement.

Accounting in future years:

1. The State would continue to apply existing capital asset guidance, including depreciation, if applicable, to the tollway. If the State elects to use the straight-line method, it would recognize \$40 million (the up-front payment divided by 75 years) in revenue and reduce the related deferred inflow of resources in the same amount each year of the arrangement.
2. If the MTA elects to use the straight-line method, it would amortize the intangible asset and recognize expense in the amount of \$40 million (the up-front payment divided by 75 years). The MTA also would recognize revenue and expenses for tollway operations based on applicable revenue and expense recognition guidance.

Both the State and the MTA would continue to provide the disclosures required by paragraphs 16 and 17, as applicable.

Illustration 2: Service Concession Arrangement to Design, Build, and Operate a New Tunnel

Facts and Assumptions: A State, through its State Department of Transportation (SDOT), the transferor, enters into an arrangement with the Local Tunnel Authority (LTA), a governmental operator, in which the LTA has agreed to design, build, and then operate a tunnel, the Geisman Tunnel, for 40 years. During the term of the arrangement, the LTA is entitled to collect and retain tolls generated by the tunnel. The arrangement meets all criteria in paragraph 4 of this Statement to qualify as a service concession arrangement. The cost to the LTA to construct the tunnel is \$4 billion. The fair value of the tunnel when it is placed into operation is \$5 billion. The fair value represents the present value of the net cash flows expected to be collected through the operation of the tunnel. The SDOT has a contractual obligation to insure the tunnel each year over the course of the arrangement beginning when the tunnel is placed into operation. The present

value of this insurance obligation is estimated to be \$500,000. The LTA is not a component unit of the State's financial reporting entity.

Accounting at the commencement of the arrangement and completion of construction:

1. The State would recognize a \$5 billion asset for the fair value of the tunnel, a \$500,000 liability for the transferor's contractual obligation to insure the tunnel, and a \$4,999,500,000 deferred inflow of resources (the difference between the \$5 billion asset and the \$500,000 liability).
2. The LTA would recognize an intangible asset in the amount of \$4 billion, the cost to design and build the tunnel.

Illustrative Disclosures

(For the State)

Note X: Service Concession Arrangement for Local Tunnel

At the end of the current year, construction was completed on the Local Tunnel pursuant to an agreement with the Local Tunnel Authority (LTA), under which the LTA designed, built, and for 40 years will operate the Geisman Tunnel. The LTA will be entitled to all toll revenues during the 40-year operations period. At the end of the arrangement, operation of the tunnel will be transferred to the SDOT. In order to satisfy the need to improve traffic flow for a major highway and reduce congestion on secondary roads, yet avoid the issuance of state debt, the department entered into this agreement with the LTA to construct and operate the tunnel. Under this arrangement, the SDOT is responsible for insuring the tunnel over the course of the 40-year operations period. The State reports a liability for \$500,000, the present value of this insurance obligation. The State also reports the tunnel as a capital asset with a carrying amount of \$5 billion at year-end and a related deferred inflow of resources of \$4,999,500,000.

(For the LTA)

Note X: Service Concession Arrangement for Local Tunnel

At the end of the current year, the LTA concluded construction and placed in service the Geisman Tunnel pursuant to an agreement with the State Department of Transportation (SDOT), under which the LTA designed, built, financed, and for 40 years will operate the Local Tunnel. The LTA will be entitled to all toll revenues during the 40-year operations period. At the end of the arrangement, operation of the tunnel will be transferred to the SDOT. The LTA entered into this agreement to enhance its revenue stream from toll revenues. The LTA has recognized an intangible asset for its right to access and operate the tunnel for 40 years in the amount of \$4 billion at year-end pursuant to the service concession arrangement.

Accounting in future years:

1. The State would apply existing capital asset guidance, including depreciation, if applicable, to the tunnel. If the State elects to use the straight-line method of amortization, it would recognize \$125 million (the fair value of the tunnel less the insurance obligation, divided by 40 years) in revenue and reduce the related deferred inflow of resources in the same amount each year of the arrangement. The State also would recognize revenue and expenses and reduce the liability as it satisfies its obligation to insure the facility over the course of the arrangement.
2. If the LTA elects to use the straight-line method of amortization, it would amortize the intangible asset and recognize expense in the amount of \$100 million each year (\$4 billion cost divided by 40 years). The LTA would recognize revenue and expenses on tunnel operations based on applicable revenue and expense recognition guidance.

Both the State and the LTA would continue to provide the disclosures required by paragraphs 16 and 17, as applicable.

Illustration 3: Service Concession Arrangement Involving an Existing Bridge

Facts and Assumptions: A State, through its State Department of Transportation (SDOT), the transferor, enters into a service concession arrangement with the County

Bridge Authority (CBA), a governmental operator, involving the Ruane State Bridge, an asset currently reported by the SDOT in the Toll Bridge enterprise fund in the amount of \$50 million. The bridge has a remaining useful life of 50 years. SDOT receives an up-front payment of \$100 million from the CBA, in return for which the CBA receives the right to operate the bridge and collect and retain toll revenues for a period of 20 years. The arrangement meets all criteria in paragraph 4 of this Statement to qualify as a service concession arrangement. Under this arrangement, the SDOT is contractually obligated to maintain the bridge over the course of the arrangement. The present value of the cost of providing this maintenance is estimated to be \$10 million. The CBA is not a component unit of the State's financial reporting entity.

Accounting at the commencement of the arrangement:

1. The State would continue to report the bridge as a capital asset and record the \$100 million up-front payment, a \$10 million liability for the maintenance obligation, and a \$90 million deferred inflow of resources (the difference between the up-front payment and the maintenance liability).
2. The CBA would recognize an intangible asset in the amount of \$100 million, the amount paid to the SDOT to access and operate the bridge.

Illustrative Disclosures

(For the State)

Note X: Service Concession Arrangement for State Bridge

At the end of the current year, the State, through its State Department of Transportation (SDOT), entered into an agreement with the County Bridge Authority (CBA), under which the CBA will operate and retain tolls from the Ruane State Bridge for the next 20 years. The CBA is required to operate the bridge and the SDOT is required to maintain the bridge in accordance with the State Bridge Concession Contract. The present value of the SDOT's maintenance obligation is estimated to be \$10 million. SDOT received from the

CBA a lump-sum payment of \$100 million. The SDOT plans to use the proceeds from the up-front payment to finance infrastructure investment throughout the state. The State reports the bridge as a capital asset with a carrying amount of \$50 million at year-end and also reports a deferred inflow of resources in the amount of \$90 million and a maintenance liability in the amount of \$10 million at year-end pursuant to the service concession arrangement.

(For CBA)

Note X: Service Concession Arrangement for State Bridge

At the end of the current year, the CBA entered into an agreement with the State Department of Transportation (SDOT), under which the CBA will operate and collect tolls from the Ruane State Bridge for the next 20 years. The CBA paid the SDOT a lump-sum payment of \$100 million and is required to operate the bridge in accordance with the State Bridge Concession Contract. The CBA entered into this agreement to enhance its revenue stream from tolls and related concession revenues. The CBA has recognized an intangible asset in the amount of \$100 million at year-end pursuant to the service concession arrangement.

Accounting in future years:

1. The State would continue to apply existing capital asset guidance, including depreciation, if applicable, to the bridge. If the State elects to use the straight-line method, it would recognize \$4.5 million (the up-front payment less the maintenance obligation, divided by 20 years) in revenue and reduce the related deferred inflow of resources in the same amount each year of the arrangement. The State would recognize revenue and expenses and reduce the liability as it satisfies its obligation to maintain the bridge over the course of the arrangement.
2. If the CBA elects to use the straight-line method of amortization, it would amortize the intangible asset and recognize expense in the amount of \$5 million each year (\$100 million cost divided by 20 years). The CBA would recognize revenue and

expenses on bridge operations based on applicable revenue and expense recognition guidance.

Both the State and the CBA would continue to provide the disclosures required by paragraphs 16 and 17, as applicable.

Illustration 4: Service Concession Arrangement for County Golf Course

Facts and Assumptions: Kranzel County, through its County Park District (CPD), the transferor, enters into an arrangement with XYZ Golf, Inc. (XYZ), a nongovernmental operator, in which XYZ has agreed to operate and maintain one of the County's three golf courses, the Driscoll River Golf Course, and collect the related fees for 10 years. The golf course and related equipment are reported as capital assets by the County in its Golf Course enterprise fund at a carrying amount of \$500,000. XYZ has agreed to pay the CPD installment payments over the course of the arrangement; the present value of these installment payments is estimated to be \$1.5 million. XYZ also has agreed to pay the CPD 10 percent of the revenues collected from the operation of the golf course. The arrangement meets all criteria in paragraph 4 of this Statement to qualify as a service concession arrangement. The transferor has no contractual obligations to sacrifice financial resources that meet the criteria to be recognized as a liability in paragraph 10 of this Statement.

Accounting at the commencement of the arrangement:

The County would continue to recognize the golf course as a capital asset and recognize a receivable and a deferred inflow of resources for the present value of the installment payments, \$1.5 million. The County would not record an estimated present value for the payments it will receive under the revenue sharing agreement because those amounts are

contingent on the generation of revenues from the golf course and will be recognized as revenue by the County as they are earned in accordance with the agreement.

Illustrative Disclosures

Note X: Service Concession Arrangement for County Golf Course

At the end of the current year, Kranzel County, through its County Park District (CPD), entered into an agreement with XYZ Golf, Inc. (XYZ), under which XYZ will operate and collect user fees from the Driscoll River Golf Course for the next 10 years. XYZ will pay CPD installment payments over the course of the arrangement; the present value of these installment payments is estimated to be \$1.5 million. XYZ will also pay the CPD 10 percent of the revenues it earns from the operation of the golf course. XYZ is required to operate and maintain the golf course in accordance with the Driscoll River Golf Course Concession Contract. The CPD plans to use the proceeds from the installment payments to fund future parks and recreation sports programs. The CPD reports the golf course and related equipment as a capital asset with a carrying amount of \$500,000 at year-end and reports a receivable and deferred inflow of resources in the amount of \$1.5 million at year-end pursuant to the service concession arrangement.

Accounting in future years:

The County would continue to apply existing capital asset guidance, including depreciation, if applicable, to the golf course and related equipment. If the County elects to use the straight-line method, it would recognize \$150,000 (the present value of installment payments divided by 10 years) in revenue and reduce the deferred inflow of resources in the same amount each year of the arrangement. The County would recognize its 10 percent share of revenues from the operation of the golf course as these revenues are earned in accordance with the terms of the revenue sharing agreement.

The County would continue to provide the disclosures required by paragraphs 16 and 17, as applicable.

Appendix E

CODIFICATION INSTRUCTIONS

66. The sections that follow update the June 30, 2010, *Codification of Governmental Accounting and Financial Reporting Standards*, for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND LEGAL COMPLIANCE

SECTION 1200

.115c [Update cross-references.]

* * *

REPORTING CAPITAL ASSETS

SECTION 1400

See also: [Add the following:] Section S30, “Service Concession Arrangements”

.121 and .122 [Update cross-references.]

[Insert new paragraph .124 as follows; renumber subsequent paragraphs and update cross-references.]

Capital Assets Related to Service Concession Arrangements

.124 Section S30, paragraphs .104–.107 and .109–.110, provides guidance for accounting and financial reporting for capital assets that are subject to service concession arrangements.

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NOTES TO FINANCIAL STATEMENTS

SECTION 2300

.106 [Update cross-reference in subparagraph j.]

.107 [Update cross-references in subparagraphs h and gg, and add new subparagraph qq as follows:] Service concession arrangements. (See Section S30, “Service Concession Arrangements,” paragraphs .112–.114.)

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**REPORTING ENTITY AND COMPONENT UNIT
PRESENTATION AND DISCLOSURE**

SECTION 2600

.117 [Update cross-references.]

* * *

CLAIMS AND JUDGMENTS

SECTION C50

.110 [Update cross-reference in subparagraph a.]

.125 [Update cross-reference.]

* * *

DERIVATIVE INSTRUMENTS

SECTION D40

.170 [Update cross-reference.]

* * *

LEASES

SECTION L20

Sources: [Add the following:] GASB Statement 60

See also: [Add the following:] Section S30, “Service Concession Arrangements”

[Insert new paragraph .101 as follows; renumber subsequent paragraphs and update cross-references.]

Scope of This Section

.101 This section establishes standards of accounting and financial reporting for leases except for arrangements that meet the definition of a service concession arrangement in paragraph .101 of Section S30 to which the guidance in that section should apply.

[NCGAS 5, ¶11, as amended by GASBS 60, ¶4 and ¶7]

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POLLUTION REMEDIATION OBLIGATIONS

SECTION P40

.102 [Update cross-reference in footnote 4.]

.118 [Update cross-reference.]

* * *

[Create new section as follows:]

SERVICE CONCESSION ARRANGEMENTS

SECTION S30

Source: GASB Statement 60

.101–.103 [GASBS 60, ¶4–¶6, including headings and footnotes; change *Statement to section* and update cross-references.]

.104–.114 [GASBS 60, ¶8–¶18, including headings and footnotes; change *Statement to section* and update cross-references.]