

<b>Service Concession Arrangements</b>	Category	Accounting
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Issued by	State Controller's Office – Division of Accounting & Reporting	

**I. Purpose**

The purpose of this policy is to discuss accounting and financial statement presentation as it applies to service concession arrangements (SCAs).

**II. Scope**

Provisions of this statement should be applied instate and local government financial statements that are prepared using a economic resources measurement focus.

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

This policy is based on GASB Statement number 60, effective for financial statements for periods beginning after December 15, 2011. The policy addresses issues related to SCAs, which are a type of public-private or public-public partnership. In this policy, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which 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 the operator collects **and** is compensated by fees from third parties.

**A. Introduction**

1. Terms of an SCA

- a. 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
- b. May provide for revenue sharing between the government and the operator during the term of the arrangement

**B. SCA criteria**

An SCA is an arrangement between a government (the transferor) and an operator in which **all** of the following criteria are met:

- The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of a capital asset (referred to in this policy 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.

- The operator collects and is compensated by fees from third parties.
- 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.
- The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement.

#### **IV. Transferor Accounting and Financial Reporting for Facilities and Related Payments Received from an Operator**

##### **A. Existing Facility SCA**

If the facility associated with an SCA is an existing facility, the transferor should continue to report the facility as a capital asset.

##### **B. New or Improved Facility**

If the facility associated with an SCA is a new facility purchased or constructed by the operator, or an existing facility that has been improved by the operator, the transferor should report:

###### **1. Fair value**

The new facility or the improvement should be recorded as a new capital asset at fair value when it is placed in operation.

###### **2. Liabilities**

Any contractual obligations should be recorded as liabilities at their present value if they are significant **and** they meet either of the following criteria:

- a. The contractual obligation directly relates to the facility; or
- 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.

###### **3. Deferred inflow**

A corresponding deferred inflow of resources equal to the difference between 1 and 2.

## **C. Measurements**

### **1. Capital Assets**

SCA capital assets are subject to existing requirements for depreciation, impairment, and disclosures unless the facility is to be returned to the transferor in its original or an enhanced condition, in which case depreciation will not be recorded. 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.

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.

### **2. Deferred inflow and liabilities:**

If a liability is recorded to reflect a contractual obligation, 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 over the remaining term of the arrangement.

### **3. Up-front or Installment payments**

The transferor should report:

- a. Up-front payments or present value of installment payments as an asset
- b. Any contractual obligations as liabilities
- 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.

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

### **A. Reporting**

A governmental operator should report an intangible asset, for the right to access the facility and collect third-party fees from its operation, at cost and amortize it over the term of the arrangement. 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.

## **B. Specific condition**

If the SCA agreement requires a facility to be returned in a specific condition and if the operator has [obtains?] information that 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.

## **VI. Revenue Sharing Arrangements**

### **A. Governmental operator**

A governmental operator that shares revenues with a transferor should report all revenue earned and expenses incurred that are associated with the operation of the facility, including the amount of revenues shared with the transferor.

### **B. Transferor**

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, 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.

### **C. Annual installments in fixed amounts**

The present value of fixed amounts in revenue sharing arrangements should be reported by the transferor.

## **VII. Disclosures Related to Service Concession Arrangements**

### **A. General disclosures**

Some arrangements may include provisions that require disclosures to be made. The information required will be covered in the current year CAFR questionnaire and follow-up questions will be sent to agencies as necessary.

The following information will be disclosed:

- 1) 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
- 2) The nature and amounts of assets, liabilities, and deferred inflows of resources related to an SCA that are recognized in the financial statements
- 3) The nature and extent of rights retained by the transferor or granted to the governmental operator under the arrangement

## B. Guarantees and commitments

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.

## VIII. Flowchart for Public-Private or Public-Public Partnership Arrangements

The flowchart (**last page of this procedure**), taken from GASB Statement No. 60, is intended to aid in determining whether a public-private or public-public partnership arrangement is within the scope of GASB Statement No. 60 and, if not, what existing accounting and financial reporting guidance would be applicable.

## IX. Examples

The following is a hypothetical example that illustrates the policy. Application of this policy may require assessment of facts and circumstances other than those illustrated here.

Service concession arrangement involving an existing correctional facility:

California, through its Department of Corrections (DOC), the transferor, enters into an arrangement with the Corrections of America, Inc. (COA), a non-governmental operator, involving the Dillon prerelease center, a capital asset being reported by the State in the Prison Industries enterprise fund at a carrying amount of \$1 million. The State receives an up-front payment of \$1.5 million from the COA, in return for which the COA receives the right to operate the facility and receive and retain profits from prison work programs and room and board collected from inmate wages for a period of 25 years. Under this arrangement, the DOC is contractually obligated to maintain the Dillon prerelease center. The present value of the cost of providing this maintenance is estimated to be \$500,000.

### 1. Capital asset reporting

The State would continue to report the prerelease center as a capital asset and record the \$1,500,000 up-front payment, a \$500,000 liability for the maintenance obligation, and a \$1,000,000 deferred inflow of resources (the difference between the up-front payment and the maintenance liability).

### 2. Accounting for up-front payment and liability

The State would recognize a liability of \$500,000 and a deferred inflow of resources in the amount of \$1.0 billion for the up-front payment received from the MTA.

Debit	Cash in Bank	\$1,500,000
Credit	Deferred inflow of resources	\$1,000,000
Credit	Liability	\$500,000

3. Accounting for future years

The State would continue to apply existing capital asset guidance, including depreciation, if applicable, to the prerelease center. If the State elects to use the straight-line method, it would recognize \$40 thousand (\$1.0 million up-front payment divided by 25 years) in revenue and reduce the related deferred inflow of resources in the same amount each year of the arrangement. The State would also reduce the liability as it satisfies its obligation to maintain the prerelease center over the course of the arrangement, recognizing revenue and expenses as applicable.

Recognition of current portion of the deferred inflow of resources.			
Debit	Deferred inflow of resources		\$40,000
Credit	Revenue		\$40,000

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

