

Accounting and Financial Reporting for Service Concession Arrangements

GASB Statement No. 60

OBJECTIVE:

Objective of GASB 60 is to provide guidance for reporting variety of Service Concession Arrangements (SCA) between a Government (the transferor) and the Operator.

IMPLEMENTATION:

GASB 60 must be implemented in the CAFR for the fiscal year ending June 30, 2013.

SCOPE AND APPLICABILITY

1. The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of a facility in exchange for significant consideration, such as an upfront payment, installment payments, a new facility, or improvements to an existing facility.
2. The operator collects and is compensated by fees from third parties.
3. The transferor determines or has the ability to modify or approve what services the operator is required to provide, and the prices or rates that can be charged for the services.
4. The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement.

SCAs include, but are not limited to:

1. 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)
2. 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
3. Arrangements in which the operator will design and build a facility for the transferor (for example, a new toll way), 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.
4. 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.
5. 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

1. Existing facility – Transferor should continue report the facility as a capital asset
2. New Facility purchased or constructed by the operator, or improved by the operator transferor should report
 - a. New or improved facility as a capital asset at fair value when placed in operation
 - b. Any contractual obligations as liabilities
 - c. Corresponding deferred inflow of resources equal to the difference between a-b above

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3. Liabilities associated with SCA should be recorded at their present value if the contractual obligation is significant and meets either of the following criteria:
 - a. Obligation directly relates to the facility
 - b. Obligation relates to a commitment made by the transferor to maintain minimum or specific level of service for the operation of the facility.
4. After initial measurement, capital asset is subject to depreciation, impairment, and required disclosures. However, if the operator is required to return the facility in its original or enhanced condition transferor should not record depreciation. Related deferred inflow of resources should be reduced and revenue be recognized in a systematic and rational manner over the term of the agreement. If a liability is recorded to reflect contractual obligation, such liability should be reduced as the transferor's obligations are satisfied. As obligations are satisfied, deferred inflow of resources should be reported and related revenue should be recognized in a systematic way over the remaining term of the arrangement. Improvements made by the operator during the term of SCA should be capitalized.
5. If an SCA requires up-front or installment payments from the operator, transferor should report :
 - a. Up-front payments or present value of installment payment as an asset
 - b. Any contractual obligations as liabilities
 - c. Related deferred inflow as a difference between a – b.
 - d. Revenue should be recognized in a systematic and rational manner over the term of the SCA
 - e. Liabilities should be recognized if the transferor has contractual obligations that meet criteria in item 3 above.

OPERATOR ACCOUNTING AND FINANCIAL REPORTING

1. Report an intangible asset for the right to access the facility and collect third-party fees from it is operation at cost.
2. Cost of improvements made by the operator during the term of the SCA to improve facility should be recorded as an increase in intangible assets
3. Intangible asset should be amortized over the term of SCA in a systematic and rational manner.
4. If the SCA requires facility to be returned in a specified condition any expense (if reasonably estimable) expenses incurred and related liability should be reported.

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REVENUE SHARING ARRANGEMENTS

1. Operator should report all revenue earned and expenses incurred, including the amount of revenue shared with the transferor
2. Transferor should recognize only its portion of the shared revenue when earned according to the terms of the SCA.
3. If the terms of the SCA requires certain amounts to be paid to the transferor regardless of revenues earned (annual fixed installments) , then the present value of those amounts should be reported by the transferor and the operator as if they were installment payment at the inception of the SCA.

IMPACT ON CAFR:

1. Accounting changes should be treated as an adjustment of prior periods, and financial statements affected should be restated. If restatement is not practical, the cumulative effects should be reported as restatements of beginning net assets for the earliest period restated.

DISCLOSURES

Disclosure information for multiple SCAs may be provided individually or aggregate similar facilities and related risk. Following information should be disclosed in the notes to financial statements of the Transferor and the Governmental Operators for SCA:

- A general description of the arrangement in effect during the reporting period, management's objectives for entering into it and, if applicable, the status of the project during the construction period
- The nature and amounts of assets, liabilities, and deferred inflows of resources related to an SCA that are recognized in the financial statements
- When applicable identification of guarantees or commitments, duration and significant contract terms.
- When Statement No. 60 is first applied nature of any restatement, and its effect should be disclosed. Also the reason for not restating prior periods presented should also be explained.