1. Title

Accounting and Financial Reporting for Service Concession Arrangements

2. Policy

Sec. 1 Policy Statement

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.

Although public colleges and universities enter into a variety of outsourcing arrangements, mostly related to auxiliary enterprises (such as athletic facilities, student housing, book stores, and food services), the provisions of this standard only apply when all four criteria are met. GASB discusses types of arrangements that fall outside of the criteria in paragraphs 30-35. Those paragraphs describe five types of arrangements that are outside of the scope of SGAS 60. Many of the arrangements that public institutions enter into will fall into one of these five exceptions. The five types are

- arrangements in which a third party is designing and building a capital asset,
- vendor arrangements,
- service and management arrangements (SMAs),
- arrangements in which the transferor makes payments to the operator, and
- privatization.

1.1 Arrangement in Which a Third party Designs and Builds a Capital Asset. 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 institution itself.

1.2 Vendor Arrangements. Some public institutions contract with a vendor to provide ancillary services inside of an institutional asset. For example, a university might contract with a concessionaire to put soda and snack machines into the dormitories. If the service provided by the operator is an ancillary service, as opposed to a service that is the primary function of the facility itself, the arrangement is excluded from the scope of GASB 60.

1.3 Service and Management Arrangements (SMAs). In a service contract, a public institution contracts with a separate entity for services it would otherwise have performed. The institution generally sets the requirements for the service delivery. A management contract is similar, but also makes 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. In these types of arrangements, the relationship between the public institution and the separate entity is similar to that of a purchaser and a vendor, and the arrangement might be referred to as an outsourcing arrangement or the services as contracted-out. Generally, these types of arrangements are short-term, and the risk and responsibility for delivery of the service remains largely with the public institution. GASB says that these arrangements, which it refers to as SMAs, should be accounted for as any other vendor or service contract.

1.4 Arrangements in which the Transferor Makes Payments to the Operator. Some public-private partnership arrangements involve an operator constructing and operating a facility owned by an institution, with the operator receiving payment for these construction and operations services from the institution, rather than from user fees. When considering guidance for accounting for these arrangements, GASB 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,

1.5 Privatization. A privatization occurs when an institution permanently transfers a capital asset or service to an operator, generally through sale. The Institution divests itself of responsibility for the facility and the related delivery of services. 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, GASB concluded that privatizations should not be included in the scope of this Statement.

Sec. 2 Scope and Applicability

2.1 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, in the case of UT System, an institution) and an operator in which all of the following criteria are met:

a. The institution 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 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.

c. The institution 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.

d. The institution is entitled to significant residual interest in the service utility of the facility at the end of the arrangement.

2.2 The University of Texas System (UT) has defined significance as 5% of system-wide net assets. As a result, only SCA’s meeting all the requirements above, in addition to exceeding 5% of system-wide nets assets are considered SCA's for UT System consolidated purposes. If an institution receives a stand-alone audit, the 5% of net assets would be applied against institutional net assets.

Sec. 3 Institution Accounting and Financial Reporting for Facilities and Related Payments Received from an Operator

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

3.2 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 institution should report (a) the new facility or the improvement as a capital asset at fair value when 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).

3.3 The institution 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 institution'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 institution 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).

3.4 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 institution 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 section 3.3, the liability should be reduced as the institution'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.

3.5 If an SCA requires up-front or installment payments from the operator, the institution 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 institution has contractual obligations that meet the criteria in section 3.3.

Sec. 4 Institutions Acting as Operators

4.1 An institution acting as 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 (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 institution during the term of the SCA should increase the institution'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.

4.2 Some agreements require a facility to be returned in a specified condition. If information that is prominent—that is, conspicuous or known to the institution—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. Institutions acting as 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.

Sec. 5 Accounting for Revenue Sharing Arrangements

5.1 Some SCAs include provisions for revenue sharing. An institution acting as 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 institution as if they were installment payments at the inception of the arrangement, consistent with sections 3.5 and 4.1.

Sec 6 Disclosures Related to Service Concession Arrangements

6.1 The following information should be disclosed in the notes to financial statements 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 institution or granted to the operator under the arrangement.

6.2 Some arrangements may include provisions for guarantees and commitments. For example, 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.

6.3 Governments should include the information required by sections 6.1 and 6.2 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.

Sec 7 Effective Date and Transition

7.1 The provisions of this Statement are effective for financial statements beginning in August 31, 2013. 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.

3. Definitions

None

4. Relevant Federal and State Statutes

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* issued November 2010.

5. Relevant System Policies, Procedures, and Forms

None

6. System Administration Office(s) Responsible for Policy

Office of the Controller

7. Dates Approved or Amended

May 30, 2012
October 2, 2012