



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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GASB Statement Provides Guidance on Partnerships Between Governments and Public or Private Entities

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which explains how to account for and report service concession arrangements (SCAs). SCAs are an increasingly popular type of public-private or public-public partnership that governments enter into, most commonly as a way to accelerate cash flows associated with the use of specific capital assets.

An SCA is an agreement between a government and another legally-separate governmental or private sector entity in which two things happen. First, the government transfers to the other entity the right and related obligation to provide public services through the use of infrastructure—like a toll road—or another public asset, such as a hospital or student housing in exchange for significant consideration from the other entity. In the context of these agreements the government that transfers rights and obligations is referred to as the government *transferor*, or simply the transferor. The entity to which these rights and obligations are transferred is referred to as the *operator*. Second, this operator—whether it is in the public or private sector—collects fees from the users or customers of the infrastructure or other public asset—for example, drivers on the toll road, patients at the hospital, or students living in the housing. Finally, the transferor maintains control over the services provided. For example, the government has the ability to modify or approve the rates that can be charged for the services and the type of services that are provided.

The requirements of Statement 60 are designed to improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, and by requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. In addition, it is designed to alleviate the confusion that can arise when determining what guidance should be applied in complex circumstances not previously specifically addressed in GASB literature.

Why Do Governments Enter into SCAs?

Entering into SCAs may be viewed as beneficial from a government's point of view for a number of reasons. An SCA may provide the government with the ability to leverage existing infrastructure and public assets to generate additional available resources in the form of up-front payments from an operator for the right to operate such assets. For example, a private company might pay \$40 million up front to a city in exchange for the right to operate the city parking garage and collect fees from those who park in it for 50 years.

SCAs may also be used to facilitate construction and financing of new infrastructure and other public assets while transferring the risks associated with construction and maintenance to another entity. Under this example of an SCA, a company or public benefit corporation builds a new toll way for a government, finances the construction costs, collects tolls from those who use the toll way, maintains the road, and at the end of the 75-year agreement, conveys the toll way to the government.

Risks associated with the building, financing, and operation of the infrastructure or other public assets often are shared between the government and the private sector entity. SCAs also may be used to provide services to the general populace in a more efficient and cost-effective manner.

What does the Statement require?

Statement 60 provides guidance on transferor accounting and financial reporting for facilities and related payments from an operator and on how to record the related governmental obligations. The statement also provides accounting and financial reporting for government operators.

For an SCA that involves a new facility purchased or built by the operator, like a municipal center or new student dormitory, or an existing facility improved by the operator, like a parking garage, the transferor should report the new facility or the improvement as a capital asset at fair value when the facility is placed in operation. The transferor should also report any related contractual obligations as liabilities. Finally, the transferor should report the difference between those two amounts as a deferred inflow of resources.

Since Statement 60 is only the second GASB Statement to address financial reporting for deferred inflows of resources, a bit of background is in order to explain the meaning of that financial statement element.

The term, *deferred inflow of resources*, which originated in Concepts Statement No. 4, is defined as "an acquisition of net assets by the government that is applicable to a future reporting period." In other words, the \$40 million upfront payment that the operator pays to the government would not be recorded by the government as \$40 million in revenue in the first year of the agreement, but instead, the government would recognize the difference between the upfront payment and any contractual obligations under the agreement as a deferred inflow of resources. The government would then

recognize revenue by systematically amortizing the deferred inflow over the term of the agreement.

What about Note Disclosures?

Statement 60 requires note disclosures about an SCA, including a general description of the arrangement including management's reasons for entering into it, information about the nature and amounts of associated assets and liabilities, the rights granted and retained by the transferor, and related guarantees and commitments. Disclosure information relating to multiple SCAs would either be reported individually by arrangement, or aggregated together if they involve similar facilities and risks.

When Does the Standard Take Effect?

Governments are required to implement Statement 60 for financial statements for periods beginning after December 15, 2011 and generally would be required to be applied retroactively for all periods presented.

- Order [Statement 60](#)
- Read the [news release](#)
- Read More about the [Service Concession Arrangements project](#)