# GASB 87, 94, & 96: Groundhog Day!

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# Topics

- General overview of GASB 87/94/96
- Areas of implementation issues
- Common Questions
- Open FAQ

# SCOPE – Is It Still A Lease?

- Applicability:
  - GASB Statement 94 - P3s
  - GASB Statement 96 – SBITAs
    - See next slide
- Which standard applies to which agreement?

# What is a lease?

A contract (e.g., an agreement between two or more parties that creates enforceable rights and obligations) that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

- In order to "convey control of the right to use of the underlying asset", a contract should have both of the following:
  - The right to obtain the present service capacity from use of the underlying asset
  - The right to determine the nature and manner of use of the underlying asset

# What's a PPP (P3)

**Public-private partnerships** and **public-public partnerships (P3s)** are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

## Availability payment arrangements (APA):

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

# What's a SBITA?

A subscription-based information technology arrangement (SBITA) "is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets) as specified in the contract for a period of time in an exchange or exchange-like transaction."

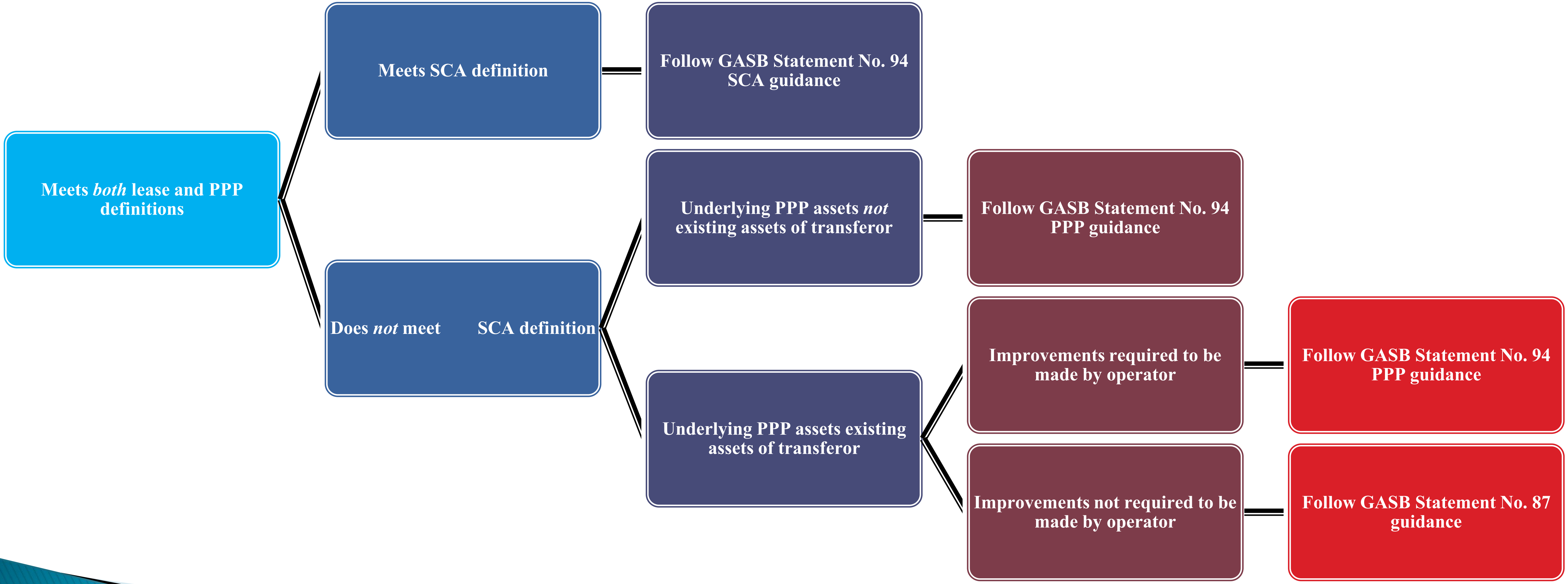
To determine whether a contract conveys control of the right to use the underlying IT assets, a government should assess whether it has both:

- The right to obtain the present service capacity from use of the underlying IT assets as specified in the contract
- The right to determine the nature and manner of use of the underlying IT assets as specified in the contract.

# What Is Excluded?

| SBITAs |
| --- |
| Contracts that solely provide IT support services |
| Contracts that convey control of the right to use another party's combination of IT software and tangible capital assets that meets the definition of a lease in GASB Statement No. 87, *Leases*, in which the software component is insignificant when compared to the cost of the underlying tangible capital asset |
| Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs |
| Contracts that meet the definition of a P3 in GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* |
| Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software, which are subject to Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* |

# Relationship Between Leases and PPPs



# Relationship Between Leases and SBITAs

- All SBITAs meet definition of lease
- Accounting depends on what the underlying asset is:
  - Tangible capital assets alone – GASB Statement No. 87
  - IT software alone – GASB Statement No. 96
  - IT software in combination with tangible capital assets:
  - Software component is insignificant compared to cost of underlying tangible capital asset – GASB Statement No. 87
  - Otherwise – GASB Statement No. 96

# Initial Reporting

| | Assets | Liability |
|---|---|---|
| **Leases (Lessee)** | Intangible right-to-use lease asset = Lease liability plus prepayments and any ancillary costs to place asset to use | Lease liability = PV of expected lease payments over lease term |
| **SBITA (End User)** | Intangible right-to-use subscription asset = Subscription liability + prepayments + capitalizable initial implementation costs | Subscription liability = PV of expected SBITA payments over SBITA term |

# Subsequent Reporting

| | Assets | Liability |
|---|---|---|
| **Leases (Lessee)** | Amortize lease asset over shorter of useful life of asset or lease term | Reduce lease liability by principal portion of lease payments<br><br>Recognize (accrue) interest payable |
| **SBITA (End User)** | Amortize subscription asset over shorter of useful life of IT asset or SBITA term | Reduce subscription liability by principal portion of SBITA payments<br><br>Recognize (accrue) interest payable |

# Multifunctional Printer

Features include:

- Printing, copying, scanning, faxing, and other tasks
- Software to connect to an IT system

Is this a SBITA?

Yes

No

# Intelligent Vehicles

- Features include:
  - Autopilot
  - Full self-driving capa

- Is this a SBITA?


Yes

No

# Website Subscriptions

- Including:
  - News services
  - Bloomberg
  - Morningstar

- Is this a SBITA?

Yes

No

# Laptops

- Features include:
  - Operating software
  - Microsoft 365

- Is this a SBITA?

Yes

No

# Cloud Computing Arrangements

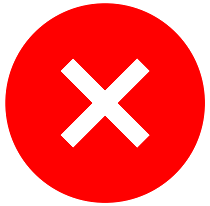

Is this a SBITA?

# Software

- Including:
  - Microsoft 365
  - QuickBooks Online
  - ERP Software
- Is this a SBITA?




Yes


No

# Software

- Including:
  - Microsoft 365
  - QuickBooks Online
  - ERP Software


What about Software that automatically renews?

# Completeness & the Population Year 2/3

- Start with existing population
  - Perform evaluation to determine if any impact from Stmts 94&96
  - Perform procedures to ensure evaluation of any new lease agreements
  - Perform procedures to identify any missed leases!
    - Never happens right!!!
    - Determine appropriate accounting (consideration of materiality, measurement)

# Accounting Term

# Lease Term

Inconsistent conclusions

Noncancelable period

+

Optional renewal periods if lessee is *reasonably certain to exercise*

+

Periods after an optional termination date if lessee is *reasonably certain not to exercise that option*

+

Optional periods to extend if lessor is *reasonably certain to exercise*

+

Periods after an optional termination date if lessor is *reasonably certain not to exercise that option*

The lease term excludes periods in which both the lessee and lessor have options to terminate regardless of probability.

Fiscal funding or cancelation clauses ignored *unless* reasonably certain of being exercised

# Subscription Term

Noncancelable period

+

Optional renewal periods if government is *reasonably certain to exercise*

+

Periods after an optional termination date if government is *reasonably certain not to exercise that option*

+

Optional periods to extend if SBITA vendor is *reasonably certain to exercise*

+

Periods after an optional termination date if SBITA vendor is *reasonably certain not to exercise that option*

The SBITA term excludes periods in which both the government and SBITA vendor have options to terminate regardless of probability.

Fiscal funding or cancelation clauses ignored *unless* reasonably certain of being exercised

# Additional Preparer Considerations

- When determining if an entity is reasonably certain to exercise extension or termination options management should consider:
  - Economic factors or incentives
  - Known plans
  - Historical performance or decisions

- From basis for conclusion:

- "The Board believes that the term *reasonably certain,* although also requiring the use of professional judgment, is a higher threshold and is less speculative than *probable*."

# Term vs Maximum Possible Term

- Lease/SBITA Term – See previous slide
- Short-Term lease/SBITA – Lease/SBITA that has a ***"maximum possible term"*** under the contract, including any options to extend, of 12 months or less

  - Evaluation of 12 months or less (Q4.11 in IG 2021-1)
    - …a three-year contract for the right to use a piece of equipment. However, the government only obtains the right to use the equipment from January through March for each of those three years…
    - Short-Term? Or Not Short-Term?

# IG 2023 Short-term Vs Perpetual

- 4.7. Q—Is a licensing agreement for a vendor's computer software that automatically renews until cancelled a licensing agreement that provides a perpetual license?
- A—No. A provision under which a licensing agreement automatically renews until cancelled is an option to terminate the agreement at each renewal date. An agreement that includes an option to terminate is not a purchase, whereas a perpetual license is a purchase in which a government is granted a permanent right to use the vendor's computer software. Therefore, a licensing agreement for a vendor's computer software that automatically renews until cancelled does not provide a perpetual license.

# Short-Term Considerations

- GASB Statement No. 99
  - Par. 12 - … a lease that previously had been determined to be short-term and that has been modified to extend the initial maximum possible term under the lease contract should be reassessed from the inception of the lease.
  - If reassessment is greater than 12 months – No Longer Short-Term!
    - Lease term to be assessed at the date of modification for measurement of receivable/liability

# Reassessment of Lease Term

- Reassess the lease term only if one or more of the following occurs:
  - Lessee or lessor elects to exercise an option even though originally determined that the lessee or lessor would not exercise that option
  - Lessee or lessor elects to not exercise an option even though previously determined that the lessee or lessor would exercise that option
  - An event specified in the contract that requires an extension or termination of the lease takes place

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# Perpetual/Automatic Renewal

- Common question – "Period of Time" if a contract automatically renews and there is no specific end date, is this outside the scope of the lease definition?
  - No, provision under which the licensing agreement automatically renews until cancelled is an option to terminate
    - 2023-1

# Term - Cancellable

- What is really ***Cancellable***? Does probabilities matter?

  - If contract gives either party the option to cancel, even if it is highly unlikely that they wont, it is a cancellable period (Q4.15 in IG 2019-3)

- What if there is a termination penalty? What if penalty is significant? (Q4.15 in IG 2019-3)

# Terminations/Modifications

# Termination Options

- GASB 99 – application of par 12 of 87:
  - Option to terminate is an unconditional right that exists within the lease contract
  - Termination based on certain circumstances are not considered termination options:
    - Due to violation of contract provisions (terms and conditions)
    - Default on payment

# Lease Termination

| Lessee | Lessor |
| --- | --- |
| • **Reduce the carrying values of the lease asset and lease liability** | • Reduce the carrying values of the lease receivable and deferred inflow of resources |
| • **Recognize a gain or loss for the difference** | • Recognize a gain or loss for the difference |
| • **Exception: If the termination occurs because the lessee purchases the underlying asset, then the lease asset should be reclassified to the proper asset class** | • Exception: If the termination occurs because the lessee purchases the underlying asset, then the carrying value of the underlying asset should be derecognized and included in the resulting gain or loss |

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# Lease Modifications

**Are both of the following conditions present?**

- Modification gives the lessee an additional lease asset by adding one or more underlying assets that were not included in the original lease
- Increase in lease payments for the additional lease asset does not appear to be unreasonable

Yes → **Account for amendment as a separate lease**

No → **Remeasure lease liability (lessee) or lease receivable (lessor)**

# Lease Modifications

See IG 2021-1, 4.20

**Q—In Question 4.67 in Implementation Guide 2019-3, the school district remeasures the lease liability. Does that remeasurement require reassessment of the discount rate?**

A—Yes. In accordance with paragraph 73 of Statement 87, a lease modification requires remeasurement of the lease liability. A remeasurement because of a lease modification is the same as reperforming an initial measurement. Therefore, reassessment of the discount rate is required.

# Comprehensive Implementation Guide 12.109.1

Q—Three years into a 4-year lease, a [government] modifies its lease from 200 computers to 230 computers due to an increase in enrollment, changing the remaining lease liability from $200,000 to $202,500. The [government] has determined that the increase in the lease payments appears to be unreasonable because it is very low when compared to the value of the additional underlying assets. How should the [government] account for the amendment to the lease?

A—Because the [government] has determined that the increase in the lease payments appears to be unreasonable, the [government] should account for this as a lease modification, but not as a separate lease because the condition in paragraph 72b of Statement 87 is not present. Paragraph 73 of Statement 87 states that unless a modification is reported as a separate lease as provided by paragraph 72, a lessee should account for a lease modification by remeasuring the lease liability. The lease asset should be adjusted by the difference between the remeasured liability and the liability immediately before the lease modification. Thus, the lease asset should be increased by $2,500, which represents the difference between the remeasured liability and the liability immediately before the lease modification.

# Options vs New Contract

- Not just semantics – Can affect the accounting!
- If renewal is an option within the contract *versus* there being a new contract:
  - Could change the short-term lease evaluation (Q4.10 in IG 2020-1) –
  - Q—A governmental housing authority enters into a 12-month residential lease contract that states the lessee may renew. If the lessee decides to renew, the housing authority and the lessee will enter into a separate lease contract at a later date for the subsequent 12-month period. Is the existing 12-month residential lease contract a short-term lease under Statement 87?
  - It determines whether renewal history matters – it matters if there is a renewal option and it does not matter if it is a new contract (Q4.11 in IG 2020-1)
  - Q—A city leases boat slips in its marina to boat owners. Each lease is for 12 months and does not contain an option to extend. A certain boat owner has signed a new lease every year for the past 20 years, and the city expects her to continue to do so. Is this a short-term lease?

# Existing Leases/SBITAs – Don’t set it and forget it!

- Don’t just roll information to the next year!
- Determine if existing lease terms are still applicable:
  - Any agreements terminate?
  - Any agreement terms modified?
    - Type of modification
  - What about assumptions used to evaluate options?
    - Did assumption occur?
    - Did assumption not occur?
    - Did my basis of evaluation change? Do I care ☺

# Special Considerations

# Accounting for Stages of Implementation (SBITA)

| Preliminary Project Stage | Initial Implementation Stage | Operational & Additional Implementation Stage |
|---|---|---|
| • Outlays expensed as incurred | • Outlays should be capitalized as part of the subscription asset<br>• If no subscription asset is recognized (for example, short-term SBITA), outlays should be expensed as incurred | • Outlays expensed as incurred unless they meet specific capitalization criteria |

Outlays related to the implementation of the SBITA can overlap or occur in multiple cycles and are recognized based on the nature and timing of the outlay (activity).

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# Stages of Implementation (SBITA)

| Preliminary Project Stage | Initial Implementation Stage | Operation and Additional Implementation Stage |
|---|---|---|
| • Conceptual formulation and evaluation of alternatives<br>• Determination of the existence of needed technology<br>• Final selection of alternatives for the SBITA | • Ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation associated with the government's access to the underlying IT assets<br>• Other ancillary charges necessary to place the subscription asset into service<br>• Initial implementation stage completed when the subscription asset is placed into service | • Maintenance, troubleshooting, and other activities associated with the government's ongoing access to the underlying IT assets<br>• Additional implementation activities, such as those related to additional modules that occur after the subscription asset is placed into service |

Data conversion is considered an activity of the initial implementation stage ***only*** when necessary to place the subscription asset into service. Otherwise, considered an activity of the operation and additional implementation stage.

Training cost are expensed as incurred, regardless of the stage the costs are incurred

# Old But Applicable Guidance – Z.51.22

- Q—Statement 51 provides guidance for the treatment of outlays associated with data conversion and user training activities for internally generated computer software. How should such outlays be accounted for when the activities are associated with the acquisition of computer software that is not considered internally generated?
- …Outlays associated with **data conversion activities** should be capitalized as an ancillary cost of the acquired computer software only if those activities are determined to be necessary to make the software operational. Otherwise, such outlays should be expensed as incurred. **Outlays associated with user training should not be considered an ancillary cost of acquired computer software**, and, therefore, those outlays should be expensed as incurred.

# Impact on SBITA Accounting Term

- Commencement Date – implementation/go live date of first module
  - Different than leases – access to underlying asset

- Cost prior to commencement –
  - subscription payments & implementation costs
  - Asset recognized – ex. Development in progress

- Commencement
  - Asset measured – follow general guidance
    - Liability base of SBITA asset
    - Prepaid moved to SBITA asset

# Prepaid

- Follow Previous slide guidance on implementation:
  - Prepaid – “Development in progress”

- Prepayment – entire amount (upfront payment)
  - SBITA asset measured based on prepayment and asset value considertions
    - Multiple components
  - Amortized over term

# Separating Components and Allocating Contract Prices

# Separating Components

| | |
|---|---|
| **Step 1: Identify separate components** | • Contracts may contain multiple components (e.g., multiple pieces of equipment)<br>• If components have different subscription terms, they must be accounted for separately<br>• If underlying assets are in different major classes of assets for disclosure purposes, they must be accounted for separately **Disclosure of major classes of subscription assets is not required. Required for Leases only!** |
| **Step 2: Identify any nonsubscription components** | • Nonsubscription components must be separated from subscription components and accounted for separately<br>• Nonsubscription components should be accounted for under applicable nonsubscription guidance. Many times, these components are service contracts. |
| **Step 3: Allocate the contract price** | • Use prices for individual components that are included in the contract, as long as not unreasonable<br>• If contract doesn't include separate prices for individual components or they seem unreasonable, use judgment to determine the best estimate for allocation to each component, but always maximizing the use of observable information |

Nonsubscription components include separate perpetual licensing arrangement (excluded from GASB Statement No. 96) and maintenance services for the IT assets.

# Separating Components: Allocating Contract Prices

| | |
|---|---|
| 1 | Identify stated prices in contract |
| 2 | Evaluate whether stated prices are "not unreasonable" (using professional judgment and maximizing use of observable inputs) |
| 3 | Assign contract prices that are "not unreasonable" to individual components (if they are only associated with an individual component) |
| 4 | Allocate remaining contract prices to applicable components, if practicable (allocate based on best estimates, maximizing use of observable inputs) |
| 5 | Measure subscription liability (lessee) using contract prices for each lease component |



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Selection of Discount Rate

# Discount Rate

- Most SBITAs do not explicitly state SBITA vendor’s rate
  - Even if it does, may be difficult to evaluate whether stated rate is reasonable
- Most governments (end users) will use their incremental borrowing rate
  - Will not be one size fits all (different rates across subscriptions)
  - Should be based on facts and circumstances of subscription (payment amounts, payment structure, length of subscription, etc.)
  - Will be significant effort in year of adoption, as well as subsequent periods
    - Helpful to develop yield curve for transition date

# Discount Rate: Determining Incremental Borrowing Rate

- Entity-specific rate that reflects the creditworthiness of a government
  - Start with debt issuance of government, debt issuance of a comparable government, or risk-free rate
  - Adjust for any financing specific items (credit rating, secured vs. unsecured, taxable vs non-taxable, collateral)
  - Adjust for specific terms (term, payment structure, payment amounts, geographical location)

**BAML Ice Index has data on various government debt issuances, including different ratings, durations, types.**

# Presentation & Disclosure

## Common Issues - Statement Presentation

- Classified Format:
  - Current/Non-Current presentation
    - Required for enterprise funds

- Leased/SBITA assets – not reported as capital assets

- Reclassification of current year payments
  - Payments made on leases are debt service
    - Principal & Interest

- Current year activity – Lessee/SBITAs
  - New leases result in recognition of an expenditures and other financing source

- Net Position

# How's it calculated? (Net Invested – CA)

Capital assets (both tangible and intangible)
Less: Accumulated depreciation/amortization
Less: Outstanding principal of capital-related borrowings related to the government's own capital assets (limited to proceeds expended for capital purposes and *excluding* unspent proceeds) ("outstanding capital-related debt")
Less: Debt used to refund capital-related borrowings, including lease liabilities and subscription liabilities[19]
Less: Any other (non-debt) capital-related liabilities as of fiscal year end, including accounts payable and retainage payable
Less: Original issue premiums on outstanding capital-related debt
Less: Capital-related deferred inflows of resources (such as a gain on refunding of outstanding capital-related debt or those resulting from the acquisition of a capital asset, such as through a service concession arrangement)
Plus: Original issue discounts on outstanding capital-related debt
Plus: Capital-related deferred outflows of resources (such as a loss on refunding of outstanding capital-related debt)

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Equals: Net investment in capital assets

Leases, SBITAs, P3s

# Common Issues - Note Disclosures

- Missing or inaccurate note disclosures, including –
  - Accounting policy descriptions
    - Capital assets – policies/thresholds inclusion of right to use assets (leased/SBITA assets)
    - Deferred inflows of resources – existing disclosures not addressing those resulting from lessor agreements
  - Use of old lease language
  - Leasing arrangements – completeness of required disclosures
    - Lessee and Lessor
      - SBITA on lessee equivalent
    - Regulated leases
  - Capital Asset Disclosures
  - Long-term Obligations
  - Over disclosing:
      - Are you an over disclosure?


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# Disclosures - Lessees

1. General description of leasing arrangements
2. Total amount of lease assets, related accumulated amortization
3. Amount of lease assets by major classes of underlying assets
4. Amount of variable payments not previously included in liability
5. **Amount of other payments not previously included in liability**
6. Principle and interest requirements to maturity
7. Commitments under leases before commencement date
8. Impairment loss and any related change in lease liability

*Additional disclosures are required for any sublease transactions, sale-leaseback transactions and lease-leaseback transactions, if applicable.*

What about capital asset or long-term liabilities disclosures?

# Disclosures: Lessee

**Q—Should lease assets be included in the disclosure of changes in capital assets?**

A— Yes. Lease assets are capital assets and, therefore, should be included in the disclosure of changes in capital assets. Paragraph 37c of Statement 87 requires lessees to disclose "the amount of lease assets by major classes of underlying assets. . . separately from other capital assets." Paragraphs 116 and 117 of GASB Statement No. 34, as amended, require disclosure of information about major classes of capital assets, including disclosure of changes in capital assets.

**Similarly, changes in the lease liability should be included in the long-term liabilities roll forward as required by GASB Statement No. 34.**

**GASB IG 2019-3, Q 4.41**

# Disclosures - Lessor

1. General description of leasing arrangements
2. Amount of inflows of resources recognized, if amount cannot be determined from face financial statements
3. Amount of inflows of resources recognized for variable and other payments not previously included in lease receivable
4. Existence, terms and conditions of lessee options to terminate lease or abate payments if lessor has issued debt which is secured by lease payments

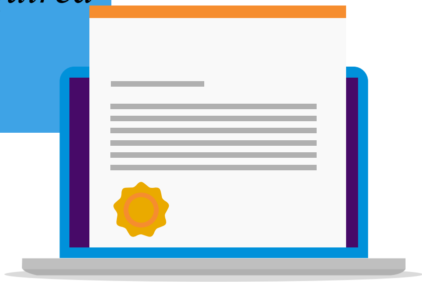
# Disclosures – Regulated Leases

1. General description of leasing arrangements
2. Extent to which capital assets are subject to preferential or exclusive use (by class of asset/major counterparty)
3. Amount of inflows of resources recognized, if amount cannot be determined from face financial statements
4. Amount of inflows of resources recognized for variable and other payments not included in expected future minimum payments
5. Existence, terms and conditions of lessee options to terminate lease or abate payments if lessor has issued debt which is secured by lease payments
6. Schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments

# Disclosures - SBITAs

1. General description of SBITA arrangements
2. Total amount of subscription assets, related accumulated amortization, separate from other capital assets
3. Amount of variable payments not previously included in liability
4. Amount of other payments not previously included in liability
5. Principal and interest requirements to maturity
6. Commitments under SBITAs before commencement date
7. Impairment loss and any related change in subscription liability

*For disclosure purposes, SBITAs may be grouped. Disclosure of major classes of subscription assets is not required. Required for GASB Statement No. 87.*



For disclosure purposes, subscription liabilities are not considered debt that is subject to disclosures required in GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.*

# Intra Entity/Related parties

- Leases with/between blended component units
  - Eliminations for internal leasing activity take place before the financial statements are aggregated
- Leases with/between discretely-presented component units
  - Treat like normal leases, but - present receivables and payables separately
- Leases between ISF and departments/governmental funds
  - Doesn’t convey control of another legal entities assets – not within scope
    - (Q4.4 in IG 2021-1)
- Recognize substance of the transaction, when substance is significantly different from legal form
  - For example, intent of short-term agreement is long-term
  - Disclose the nature and extent of related-party leases

# Materiality

- Year 2: Considerations:
  - Est. Materiality for year 2:
    - Reminder materiality considerations by aggregate (Q4.23 of IG 2019-3)
    - Receivables/Deferred inflows – Lessor
    - Capital Assets/Liabilities by Lessee
  - Capital Assets – (Q5.1 of IG 2021-1)
    - directing governments to capitalize the **<u>collective</u>** amount if material in total
  - Prior year leases determined to be immaterial
    - Consider Prior & Current year leases not recognized in the aggregate
    - Consider amounts by reporting unit as a preparer
    - Consider amounts by Opinion unit as an auditor

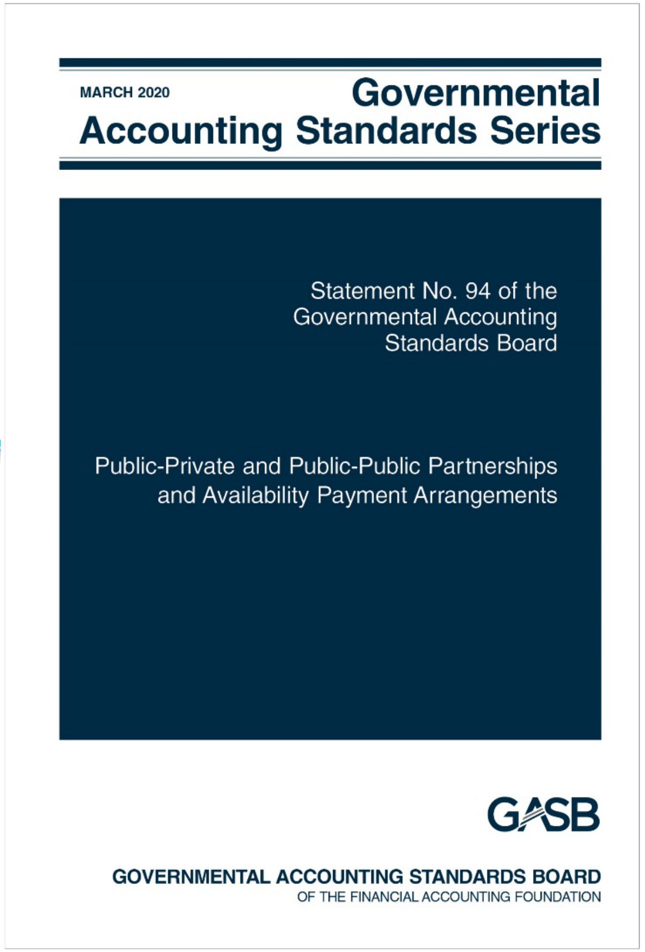
# Comprehensive Implementation Guide Z.110.1

Q—Upon completion of a capital asset project during the year, the government closes out a major capital projects fund and moves the remaining resources to the general fund. Does this circumstance constitute a change to or within the reporting entity?

A—No. Even though the capital projects fund will no longer be included in the government's financial reports in future periods (that is, the fund will be removed for financial reporting purposes), it does not constitute a change to or within the financial reporting entity in accordance with paragraph 9a of Statement 100 because, in this case, the removal of the fund does not result from the movement of continuing operations. Instead, the movement of remaining resources to the general fund should be reported as interfund activity in accordance with paragraph 112 of Statement 34.

# Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Statement No. 94


MARCH 2020 Governmental Accounting Standards Series

Statement No. 94 of the Governmental Accounting Standards Board

Public-Private and Public-Public Partnerships and Availability Payment Arrangements

GASB

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

# P3s, APAs, and SCAs

## What?

The Board issued guidance for public-private and public-public partnerships (P3s) that are not subject to Statements 60 or 87, and improvements to Statement 60

## Why?

GASB research found that some P3 transactions are outside the scope of Statement 60 and identified opportunities to improve Statement 60's guidance for service concession arrangements (SCAs)

## When?

Effective for reporting periods beginning after June 15, 2022

# Definitions: PPPs and APAs

**Public-private partnerships** and **public-public partnerships (P3s)** are arrangements "in which a government (the transferor) contracts with an operator [governmental or nongovernmental] to provide public services by conveying control of the right to operate a nonfinancial assets, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction."

**Availability payment arrangements (APA):**

- Government contracts with another entity to operate or maintain the government's nonfinancial asset
- Entity receives payments from the government based on the asset's availability for use
- Asset's availability may be based on the physical condition of the asset or the achievement of certain performance measures
- May include design, finance, construction, or service components

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# P3s

Although sounds similar to a lease, the definition contains characteristics that the Board believes describe transactions in which a government is doing more than purchasing or financing a nonfinancial asset or entering into an arrangement to purchase services.

The operator in a P3 provides public services.

A P3 conveys control of the right to operate a nonfinancial asset.

# APAs

Transactions in which a government compensates an operator for activities that are related to designing, constructing, financing, maintaining, or operating a nonfinancial asset.

APAs are similar to P3s except that the government retains demand risk and responsibility for fee collection associated with the underlying asset.

Appendix C – Illustrations (state tollway, tunnel, & bridge)

# Other Provisions

A P3 that meets the definition of a lease in Statement 87 – but not the definition of a service concession arrangement (SCA) – would be reported under Statement 87 unless (a) the underlying PPP assets are not existing assets of the transferor or (b) improvements are required to be made to those existing underlying P3 assets by the operator.

An APA that is related to the design, finance, or construction of an infrastructure or other nonfinancial asset in which ownership of the asset transfers by the end of the contract would be reported as a financed purchase of the asset.

An APA that is related to operations would be accounted for as flows of resources (for example, expense) in the period to which the payments relate.

# Transferor Reporting

| For all P3s, recognize: | If underlying P3 asset is a new asset or an existing asset that has been improved… |
| --- | --- |
| • Receivable for installment payments to be received, if any<br>• Deferred inflow of resources for the assets recognized, including payments received from the operator at or before start of the P3 term | • …and the P3 is an SCA: also recognize the capital asset at acquisition value when placed into operation<br>• …and the P3 is not an SCA: also recognize a receivable for the capital asset, measured at operator’s estimated carrying value as of the future date of the transfer in ownership |

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# Operator Reporting

| For all P3s, recognize: | If underlying P3 asset is (a) existing asset or improvement or (b) new asset and the P3 is an SCA… | If underlying P3 asset is a new asset and the P3 is not an SCA… |
|---|---|---|
| • Liability for installment payments to be made, if any | • …also recognize an intangible right-to-use asset | • Also recognize the underlying P3 asset until ownership is transferred<br>• And a liability for the underlying P3 asset, measured at the estimated carrying value as of the future date of the transfer |

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# Questions?