University of California
Governmental Accounting Standards Board (GASB) Statement No. 60,
Accounting and Financial Reporting for Service Concession Arrangements

Issues Resolution Memo No. 60-1

Evaluation of GASB Statement No. 60 as it Relates to the UC Reporting Entities
Issued: November 29, 2011

Background

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, was adopted by the University effective July 1, 2012. This Statement addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (the University) and an operator (governmental or nongovernmental entity) in which 1) 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 2) the operator collects and is compensated by fees from third parties.

This Statement applies only to those arrangements in which specific criteria determining whether the University has control over the facility are met. The University reports the facility subject to an SCA as its capital asset, generally following existing measurement, recognition, and disclosure guidance for capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the University. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the University, along with a corresponding deferred inflow of resources. Revenue is recognized by the transferor in a systematic and rational manner over the term of the arrangement.

This Statement also provides guidance when the University is an operator to an SCA. As the operator to the agreement, the University would report an intangible asset at cost for its right to access the facility and collect third-party fees; amortize the intangible asset over the term of the arrangement in a systematic and rational manner. For existing facilities, the University's cost may be the amount of an up-front payment or the present value of installment payments. For new or improved facilities, the University's cost may be its cost of improving an existing facility or constructing or acquiring a new facility.

For revenue sharing arrangements, this Statement requires governmental operators to report all revenues and expenses. A transferor reports its portion of the shared revenues.

Effective Date

The requirements of this Statement are effective for the University for the period beginning July 1, 2012 and are required to be applied retroactively for all periods presented in the annual financial statements.

Define Issue

The University must determine whether GASB Statements No. 60 changes any existing financial reporting and disclosure requirements for any of the University's financial reporting entities.

Authoritative Guidance

Scope and Applicability
GASB No. 60 defines an SCA as an arrangement between the University (the transferor) and an operator in which all of the following criteria is met:

a. The University 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 University 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 transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement.

An SCA includes but is not limited to

a. Arrangements in which the operator will design and build a facility and will obtain the right to collect fees from 3rd parties (e.g. construct student housing for the right to lease the units to the University's students).

b. 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.

c. Arrangements in which the operator will design and build a facility for the transferor (for example, a new childcare facility), 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.

This Statement amends existing guidance on lease agreements accounted for under L-217-11, *Accounting and Reporting for Leases and Installment Purchase Contracts*, to exclude arrangements that meet the definition of an SCA from the scope of that chapter.

Accounting for an SCA as the Transferor

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

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 (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).

The University 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 transferor'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 transferor 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).

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 transferor 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 (i.e. straight-line method over the life of the agreement), 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 a contractual obligation above, the liability should be reduced as the University'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.

If an SCA requires up-front or installment payments from the operator, the University should report (a) the up-front payment or present value of installment payments as a receivable, (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 transferor has contractual obligations that meet the criteria of a liability as described above.

Governmental Operator Accounting
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 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. The intangible asset should be amortized over the term of the arrangement in a systematic and rational manner using the straight-line method.

Some agreements require a facility to be returned in a specified condition. If information that is prominent—that is, conspicuous or known to the governmental operator—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. Governmental 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.

Revenue Sharing Arrangements
Some SCAs include provisions for revenue sharing. 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 governmental operator as if they were installment payments at the inception of the arrangement, consistent with the paragraphs included in *Governmental Operator Accounting* above.

Required Disclosures

The following information should be disclosed in the notes to financial statements of transferors and governmental operators 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 transferor or granted to the governmental operator under the arrangement.

Some arrangements may include provisions for guarantees and commitments. For example, a transferor may become responsible for paying the debt of the operator in the event of a default, or 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.

Disclosure information for multiple SCAs may be provided individually or in the aggregate for those that involve similar facilities and risk.

Implementation

The University should evaluate all such arrangements using the University's GASB 14 checklist. The checklist can be found at the UCOP Financial Management's GASB Web Site (http://www.ucop.edu/financial-accounting/policies-and-guidance/index.html) which incorporates the following questions for evaluating service concession arrangements (as questions 35 through 39).

1. Does the arrangement involve a transferor conveying to an operator the right and obligation to provide a service in exchange for significant consideration?

   a. Yes – Proceed to question two.
   b. No – Arrangement is not an SCA.

2. Is infrastructure or another public asset existing or to be constructed or acquired, used in providing the service?
   a. Yes – Proceed to question three.
   b. No – Arrangement is a management services agreement and outside the scope of this IRM.

3. Is the operator compensated by the transferor or by the users or service recipients?
   a. Transferor – Agreement is a service management agreement or construction contract and outside the scope of this IRM.
   b. Users or service recipients – Proceed to question four.

4. Does the transferor determine or have the ability to modify or have the ability to modify or approve the services the operator can provide, to whom the operator can provide the services, and the rates that can be charged?
   a. Yes – Proceed to question five.
   b. No – The transferor does not maintain control over the facility, hence the agreement is not an SCA.

5. Does the transferor retain a significant residual interest in the asset?
   a. Yes – Arrangement is an SCA.
   b. No – Arrangement is not an SCA and outside the scope of this IRM.

Transferor Accounting
The following lists the journal entry accounts, comprising of Account Group Codes (AGs) and Transaction Codes (TCs) as listed below for accounting as a transferor.

a. Additions to buildings, structures, and general improvements should be recorded using the following codes.

Building & Structures-Service Concession Arrangements	AG120250
General Improvements-Service Concession Arrangements	AG120340

b. Depreciation should be recorded to the following accumulated depreciation and depreciation expense accounts;

Accumulated Depreciation-Buildings & Structures -Service Concession Arrangements	AG121250
Accumulated Depreciation-General Improvements -Service Concession Arrangements	AG121340

Depreciation-Building & Structures-Service Concession Arrangements	TC2510
Depreciation-General Improvements-Service Concession Arrangements	TC2511

Note: See authoritative guidance section of this IRM to determine if depreciation should be applied. Depreciation is not applied in all circumstances. However, the Campus should record depreciation if applicable in accordance with existing accounting guidance.

c. If the SCA requires an up-front payment or installment payments from the Operator to the University, the related receivable should be recorded to the following accounts;

CA-A/R-Other-Service Concession Arrangements	AG160580
NA-Other Assets-Service Concession Arrangements	AG161580

d. Contractual obligations should be recorded to the following accounts;

CL-Contractual Obligations-Service Concession Arrangements	AG164800
NL-Other-Contractual Obligations-Service Concession Arrangements	AG165800

e. Deferred inflows, as measured as the difference between the fixed assets, up-front payments if any, and contractual obligations of the service concession arrangement should be recorded to the following accounts;

NL-Deferred Inflows-Service Concession Arrangements	AG165613

f. Revenues of the service concession arrangement (see related accounting guidance in the Revenue Sharing Arrangements section if applicable) should be recorded to the following account;

Other Nonoperating Revenue - Service Concession Arrangements	AG208430

Government Operator Accounting
The following lists the journal entry accounts, comprising of Account Group Codes (AGs) and Transaction Codes (TCs) as listed below for accounting as a government operator.

a. An intangible asset should be recorded to account for the cost of construction, improvements to an existing facility, or any up-front payments to the following accounts;

Intangible Assets-Service Concession Arrangements	AG120735

b. Depreciation should be recorded to the following accumulated depreciation and depreciation expense accounts;

Accumulated Depreciation-Intangible Assets-Service Concession Arrangements	AG121735
Intangible Assets-Service Concession Arrangements	TC2470

<u>Next Steps—Required Actions</u>

The Campuses should evaluate all ground lease and other operating agreements subsequent to July 1, 2012 using the GASB 14 checklist. See implementation section of this IRM for location of the checklist.