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MARCH 2020

# Governmental Accounting Standards Series

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Statement No. 94 of the  
Governmental Accounting  
Standards Board

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

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## Summary

The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which 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; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

## PPPs

This Statement requires that PPPs that meet the definition of a lease apply the guidance in Statement No. 87, *Leases*, as amended, if existing assets of the transferor that are not required to be improved by the operator as part of the PPP arrangement are the only underlying PPP assets and the PPP does not meet the definition of an SCA. This Statement provides accounting and financial reporting requirements for all other PPPs: those that either (1) meet the definition of an SCA or (2) are not within the scope of Statement 87, as amended (as clarified by this Statement). The PPP term is defined as the period during which an operator has a noncancelable right to use an underlying PPP asset, plus, if applicable, certain periods if it is reasonably certain, based on all relevant factors, that the transferor or the operator either will exercise an option to extend the PPP or will not exercise an option to terminate the PPP.

A transferor generally should recognize an underlying PPP asset as an asset in financial statements prepared using the economic resources measurement focus. However, in the case of an underlying PPP asset that is not owned by the

transferor or is not the underlying asset of an SCA, a transferor should recognize a receivable measured based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, a transferor should recognize a receivable for installment payments, if any, to be received from the operator in relation to the PPP. Measurement of a receivable for installment payments should be at the present value of the payments expected to be received during the PPP term. A transferor also should recognize a deferred inflow of resources for the consideration received or to be received by the transferor as part of the PPP. Revenue should be recognized by a transferor in a systematic and rational manner over the PPP term.

This Statement requires a transferor to recognize a receivable for installment payments and a deferred inflow of resources to account for a PPP in financial statements prepared using the current financial resources measurement focus. Governmental fund revenue would be recognized in a systematic and rational manner over the PPP term.

This Statement also provides specific guidance in financial statements prepared using the economic resources measurement focus for a government that is an operator in a PPP that either (1) meets the definition of an SCA or (2) is not within the scope of Statement 87, as amended (as clarified in this Statement). An operator should report an intangible right-to-use asset related to an underlying PPP asset that either is owned by the transferor or is the underlying asset of an SCA. Measurement of the right-to-use asset should be the amount of consideration to be provided to the transferor, plus any payments made to the transferor at or before the commencement of the PPP term, and certain direct costs. For an underlying PPP asset that is not owned by the transferor and is not the underlying asset of an SCA, an operator should recognize a liability measured based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership. In addition, an operator should recognize a liability for installment payments, if any, to be made to the transferor in relation to the PPP. Measurement of a liability for installment payments should be at the present value of the payments expected to be made during the PPP term. An operator also should recognize a deferred outflow of resources for the consideration provided or to be provided to the transferor as part of the PPP. Expense should be recognized by an operator in a systematic and rational manner over the PPP term.

This Statement also requires a government to account for PPP and non-PPP components of a PPP as separate contracts. If a PPP involves multiple underlying assets, a transferor and an operator in certain cases should account for each underlying PPP asset as a separate PPP. To allocate the contract price to different components, a transferor and an operator should use contract prices for individual components as long as they do not appear to be unreasonable

based on professional judgment or use professional judgment to determine their best estimate if there are no stated prices or if stated prices appear to be unreasonable. If determining the best estimate is not practicable, multiple components in a PPP should be accounted for as a single PPP.

This Statement also requires an amendment to a PPP to be considered a PPP modification, unless the operator's right to use the underlying PPP asset decreases, in which case it should be considered a partial or full PPP termination. A PPP termination should be accounted for by a transferor by reducing, as applicable, any receivable for installment payments or any receivable related to the transfer of ownership of the underlying PPP asset and by reducing the related deferred inflow of resources. An operator should account for a termination by reducing the carrying value of the right-to-use asset and, as applicable, any liability for installment payments or liability to transfer ownership of the underlying PPP asset. A PPP modification that does not qualify as a separate PPP should be accounted for by remeasuring PPP assets and liabilities.

## **APAs**

An APA that is related to designing, constructing, and financing a nonfinancial asset in which ownership of the asset transfers by the end of the contract should be accounted for by a government as a financed purchase of the underlying nonfinancial asset. This Statement requires a government that engaged in an APA that contains multiple components to recognize each component as a separate arrangement. An APA that is related to operating or maintaining a nonfinancial asset should be reported by a government as an outflow of resources in the period to which payments relate.

## **Effective Date**

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

PPPs should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or if applicable to earlier periods, the beginning of the earliest period restated).

## **How the Changes in This Statement Will Improve Financial Reporting**

The requirements of this Statement will improve financial reporting by establishing the definitions of PPPs and APAs and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs.

## **How the Board Considered Costs and Benefits in the Development of This Statement**

One of the principles guiding the Board's setting of standards for accounting and financial reporting is the assessment of the expected benefits and perceived costs. The Board strives to determine that its standards address significant user needs and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit. The Board believes that the expected benefits that will result from the information provided through implementation of this Statement—more relevant and comparable information about PPPs and APAs—are significant and justify the perceived costs of implementation and ongoing compliance. To reduce the costs associated with implementation, this Statement applies recognition, measurement, and remeasurement requirements for PPPs that are similar to the requirements for lease transactions in Statement 87, as amended.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

Statement No. 94 of the  
Governmental Accounting  
Standards Board

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

March 2020



**GOVERNMENTAL ACCOUNTING STANDARDS BOARD**  
of the Financial Accounting Foundation  
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# **Statement No. 94 of the Governmental Accounting Standards Board**

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

**March 2020**

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# **Statement No. 94 of the Governmental Accounting Standards Board**

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

**March 2020**

### **INTRODUCTION**

1. Public-private and public-public partnerships, collectively referred to herein-after as PPPs, comprise a wide variety of arrangements between a government and another party that are engaged in providing services to a government's constituents. Availability payment arrangements (APAs) also have been used in practice to procure governmental services.
2. The objective of this Statement is to better meet the information needs of financial statement users by improving the comparability of financial statements among governments that enter into PPPs and APAs and by enhancing the understandability, reliability, relevance, and consistency of information about PPPs and APAs.

### **STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING**

#### **Scope and Applicability of This Statement**

3. This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this Statement apply to financial statements of all state and local governments.
4. This Statement supersedes Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements; Implementation Guide No. 2015-1*, Question Z.60.1; and Implementation Guide No. 2016-1, *Implementation Guidance Update—2016*, Question 4.74. This Statement amends

Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraph 10; Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, paragraphs 11 and 12; Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, paragraph 3; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 135; Statement No. 87, *Leases*, paragraph 8; and Statement No. 91, *Conduit Debt Obligations*, paragraph 19.

5. For purposes of applying this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator<sup>1</sup> to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset<sup>2</sup>), for a period of time in an exchange or exchange-like<sup>3</sup> transaction.
6. Some PPPs are service concession arrangements (SCAs). An SCA is a PPP arrangement between a transferor and an operator in which all of the following criteria are met:
  - a. The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset 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.<sup>4</sup>

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<sup>1</sup>The operator may be a governmental entity or a nongovernmental entity. References to an operator include both governmental and nongovernmental entities, except for operator accounting and financial reporting provisions, which only apply to governmental entities.

<sup>2</sup>Underlying PPP assets include (a) existing assets of a transferor, (b) assets that are newly purchased or constructed by the operator, or (c) existing assets of a transferor that are to be improved by the operator.

<sup>3</sup>The scope of this Statement includes both exchange and exchange-like transactions. Footnote 1 of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, states that “the difference between exchange and exchange-like transactions is a matter of degree. In contrast to a ‘pure’ exchange transaction, an exchange-like transaction is one in which the values exchanged, though related, may not be quite equal or in which the direct benefits may not be exclusively for the parties to the transaction. Nevertheless, the exchange characteristics of the transaction are strong enough to justify treating the transaction as an exchange for accounting recognition.”

<sup>4</sup>This excludes custodial relationships (that is, an arrangement in which an operator accepts payments from third parties and remits those payments to the transferor for an established fee).

- c. The transferor determines or has the ability to modify or approve which 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.<sup>5</sup>
- d. The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

7. For purposes of applying this Statement, an APA is an arrangement in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like<sup>6</sup> transaction. The payments by the government are based entirely on the asset's availability for use rather than on tolls, fees, or similar revenues or other measures of demand. Availability for use may be based on specified criteria such as the physical condition of the asset, construction milestones, or the achievement of certain availability measures. In an APA, a government procures a capital asset or service, rather than receiving compensation to allow another entity to provide public services. An APA may be similar to a PPP that includes a variable payment provision; however, in contrast to a PPP, the other party to an APA is receiving compensation from the government based entirely on availability to perform and not the actual performance of a public service.

8. This Statement establishes guidance for the various aspects of PPPs and APAs as follows:

- a. Paragraph 9 addresses PPPs that apply Statement 87.
- b. Paragraphs 10–13 define the PPP term.
- c. Paragraphs 14–36 provide PPP transferor recognition, measurement, and disclosure guidance.
- d. Paragraphs 37–59 provide PPP operator recognition, measurement, and disclosure guidance.
- e. Paragraphs 60–65 address PPP arrangements with multiple components.
- f. Paragraphs 66–75 address PPP modifications and terminations.
- g. Paragraphs 76–83 address APA recognition and measurement, including APAs with multiple components.

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<sup>5</sup>A provision that establishes that a third party is required to charge prices within a range that is not unreasonable compared to amounts charged by other parties for similar goods and services in the surrounding area would meet this criterion.

<sup>6</sup>See footnote 3.

# **Accounting and Financial Reporting for PPPs**

## **PPPs That Apply Statement 87**

9. A government that has a PPP that meets the definition of a lease should apply the accounting and financial reporting guidance in Statement 87, as amended, if (a) existing assets of the transferor are the only underlying PPP assets, (b) improvements are not required to be made by the operator to those existing assets as part of the PPP arrangement, and (c) the PPP does not meet the definition of an SCA in paragraph 6.

## **PPPs Other Than Those Addressed in Paragraph 9**

### ***PPP Term***

10. The PPP term is the period during which an operator has a noncancelable right to use an underlying PPP asset (referred to as the noncancelable period), plus the following periods, if applicable:

- a. Periods covered by an operator's option to extend the PPP if it is reasonably certain, based on all relevant factors, that the operator will exercise that option
- b. Periods covered by an operator's option to terminate the PPP if it is reasonably certain, based on all relevant factors, that the operator will *not* exercise that option
- c. Periods covered by a transferor's option to extend the PPP if it is reasonably certain, based on all relevant factors, that the transferor will exercise that option
- d. Periods covered by a transferor's option to terminate the PPP if it is reasonably certain, based on all relevant factors, that the transferor will *not* exercise that option.

Periods for which both the operator and the transferor have an option to terminate the PPP without permission from the other party (or if both parties have to agree to extend) are cancellable periods and are excluded from the PPP term. For example, a PPP that continues into a holdover period until a new PPP arrangement is entered into, would not be enforceable if both the operator

and the transferor have an option to terminate and, therefore, either could cancel the PPP at any time. Provisions that allow for termination of a PPP due to either payment of all sums due or default on payments are not considered termination options.

11. A fiscal funding or cancellation clause allows an operator to cancel a PPP, typically on an annual basis, if the operator does not appropriate funds for the PPP payments. That type of clause should affect the PPP term only if it is reasonably certain that the clause will be exercised.

12. At the commencement of the PPP term, a transferor and an operator should assess all factors relevant to the likelihood that the transferor or the operator will exercise options identified in paragraphs 10a–10d, whether these factors are contract based, underlying asset based, market based, or government specific. The assessment often will require the consideration of a combination of those interrelated factors. Examples of factors to consider include, but are not limited to, the following:

- a. A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates
- b. A significant economic disincentive, such as costs to terminate the PPP and sign a new PPP arrangement (for example, negotiation costs, relocation costs, abandonment of significant underlying PPP asset improvements, costs associated with returning the underlying PPP assets in a contractually specified condition or to a contractually specified location, or a substantial cancellation penalty)
- c. The history of exercising options to extend or terminate
- d. The extent to which the underlying PPP asset is essential to the provision of government services.

13. A transferor and an operator should reassess the PPP term only if one or more of the following occur:

- a. The transferor or the operator elects to exercise an option even though it was previously determined that it was reasonably certain that the transferor or the operator would not exercise that option.
- b. The transferor or the operator elects not to exercise an option even though it was previously determined that it was reasonably certain that the transferor or the operator would exercise that option.

- c. An event specified in the PPP arrangement that requires an extension or termination of the PPP takes place.

### ***Transferor Recognition and Measurement for PPPs***

14. If an underlying PPP asset is an existing asset of the transferor, at the commencement of the PPP term, the transferor should continue to recognize the underlying PPP asset, as discussed in paragraphs 18–20. The transferor also should recognize:

- a. A receivable for installment payments, if any, to be received in relation to the PPP, as discussed in paragraphs 22–30
- b. A deferred inflow of resources, as discussed in paragraphs 32 and 33.

In addition, the transferor should recognize an asset for improvements,<sup>7</sup> if any, made by the operator to an existing underlying PPP asset of the transferor, as discussed in paragraph 21, and a deferred inflow of resources, as discussed in paragraphs 32 and 33, when the improvements are placed into service.

15. If an underlying PPP asset is a new asset purchased or constructed by the operator and the PPP meets the definition of an SCA, the transferor should recognize:

- a. An asset for the purchased or constructed underlying PPP asset when the underlying PPP asset is placed into service, as discussed in paragraphs 18–20
- b. At the commencement of the PPP term, a receivable for installment payments, if any, to be received in relation to the PPP, as discussed in paragraphs 22–30
- c. At the commencement of the PPP term, a deferred inflow of resources, as discussed in paragraphs 32 and 33.

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<sup>7</sup>Improvements, as defined in paragraph 25 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, increase the capacity or efficiency of the underlying PPP asset rather than preserve its useful life. For underlying PPP assets that are not reported using the modified approach, as discussed in paragraphs 23–26 of Statement 34, improvements also may extend the useful life of the underlying PPP asset.

16. If an underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does *not* meet the definition of an SCA, when the underlying PPP asset is placed into service the transferor should recognize:

- a. A receivable for the underlying PPP asset purchased or constructed to be received from the operator, as discussed in paragraph 31
- b. A receivable for installment payments, if any, to be received in relation to the PPP, as discussed in paragraphs 22–30
- c. A deferred inflow of resources, as discussed in paragraphs 32 and 33.

### **Initial direct costs**

17. Any initial direct costs incurred by the transferor should be reported as outflows of resources (for example, expense) for the period. For example, costs incurred to originate a PPP that result directly from and are essential to that PPP and would not have been incurred had the PPP transaction not occurred and costs directly related to specified activities performed by the transferor for that PPP, such as evaluating the prospective operators' financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating PPP terms; preparing and processing PPP documents; and closing the transaction.

### **Underlying PPP asset**

18. If an underlying PPP asset is an existing asset of the transferor, the transferor should continue to measure the underlying PPP asset at its carrying value as of the commencement of the PPP term.

19. If an underlying PPP asset is a new asset purchased or constructed by the operator, recognized in accordance with paragraph 15a, the transferor initially should measure the underlying PPP asset at acquisition value when the asset is placed into service.

20. A transferor should apply all other accounting and financial reporting requirements relevant to an underlying PPP asset, recognized in accordance with paragraph 14 or paragraph 15a, including depreciation and impairment. However, if the PPP arrangement requires the operator to return the underlying PPP asset in its original condition, the transferor should not depreciate the asset during the PPP term.

## **Improvements to an underlying PPP asset**

21. A transferor should measure improvements made by the operator to an underlying PPP asset, recognized in accordance with paragraph 14, at acquisition value when the improvements are placed into service. A transferor should apply all other accounting and financial reporting requirements relevant to the improvements to the underlying PPP asset, as discussed in paragraph 20, including depreciation and impairment.

## **Receivable for installment payments**

22. A transferor initially should measure the receivable for installment payments at the present value of PPP payments expected to be received during the PPP term, reduced by any provision for estimated uncollectible amounts. Measurement of the receivable for installment payments should include the following, if required by a PPP:

- a. Fixed payments
- b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the PPP term
- c. Variable payments that are fixed in substance, as discussed in paragraph 23
- d. Residual value guarantee payments that are fixed in substance.

23. Variable payments, including payments related to revenue sharing arrangements,<sup>8</sup> based on future performance of the operator, usage of the underlying PPP asset, or variable factors other than an index or a rate, should not be included in the measurement of the receivable for installment payments. Rather, those variable payments should be recognized as inflows of resources (for example, revenue) in the period to which those payments relate. However, any component of those variable payments that is fixed in substance should be included in the measurement of the receivable for installment payments.

24. Amounts to be received under residual value guarantees (that are not fixed in substance) should be recognized as a receivable for installment payments and an inflow of resources if (a) a guarantee payment is required (as agreed to by the transferor and the operator) and (b) the amount can be reasonably

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<sup>8</sup>For revenue sharing arrangements, a transferor should recognize only its portion of the shared revenue when earned in accordance with the terms of the arrangement.

estimated. Amounts to be received for a PPP termination penalty should be recognized as a receivable for installment payments and an inflow of resources (for example, revenue) when that option is exercised.

25. The future PPP payments to be received should be discounted using the interest rate the transferor charges the operator, which may be the interest rate implicit in the PPP. A transferor is not required to apply the guidance for imputation of interest in paragraphs 173–187 of Statement 62 but may do so as a means of determining the interest rate implicit in the PPP arrangement.

26. In subsequent financial reporting periods, a transferor should calculate the amortization of the discount on the receivable for installment payments and report that amount as an inflow of resources (for example, interest revenue) for the period. Any PPP payments received should be allocated first to the accrued interest receivable and then to the receivable for installment payments.

27. A transferor should remeasure the receivable for installment payments at subsequent financial reporting dates if one or more of the following changes have occurred at or before that financial reporting date, based on the most recent PPP arrangement before the changes,<sup>9</sup> and the changes individually or in the aggregate are expected to significantly affect the amount of the receivable for installment payments since the previous measurement:

a. There is a change in the PPP term.  
b. There is a change in the interest rate the transferor charges the operator.  
c. A contingency, upon which some or all of the variable payments that will be received over the remainder of the PPP term are based, is resolved such that those payments now meet the criteria for measuring the receivable for installment payments under paragraph 22. For example, an event occurs that results in variable payments that were contingent on the performance or use of the underlying PPP asset becoming fixed payments for the remainder of the PPP term.

28. If a receivable for installment payments is remeasured for any of the changes in paragraph 27, the receivable also should be adjusted for any change in an index or a rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the

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<sup>9</sup>Changes arising from amendments to a PPP arrangement should be accounted for under the provisions of paragraphs 66–75 for PPP modifications and terminations.

receivable for installment payments since the previous measurement. A receivable for installment payments is not required to be remeasured solely for a change in an index or a rate used to determine variable payments.

29. A transferor also should update the discount rate as part of the remeasurement if one or both of the following changes<sup>10</sup> have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the receivable for installment payments:

- a. There is a change in the PPP term.
- b. There is a change in the interest rate the transferor charges the operator.

30. If the discount rate is updated based on the provisions in paragraph 29, the receivable for installment payments should be remeasured using the revised discount rate.

### **Receivable for the underlying PPP asset**

31. A transferor should measure a receivable for the underlying PPP asset, recognized in accordance with paragraph 16a, based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership from the operator. The receivable for the underlying PPP asset should be remeasured if there is a PPP modification, as discussed in paragraphs 68–70, or a PPP termination, as discussed in paragraphs 73 and 74.

### **Deferred inflow of resources**

32. A transferor initially should measure the deferred inflow of resources related to a PPP as the sum of the following assets when the related assets are recognized:

- a. The amount of the initial measurement of the receivable for installment payments, as discussed in paragraph 22
- b. PPP payments received from the operator at or before the commencement of the PPP term, if applicable (for example, an up-front payment associated with a PPP)

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<sup>10</sup>See footnote 9.

- c. The amount of the initial measurement for the underlying PPP asset, as discussed in paragraph 19
- d. The amount of the initial measurement for improvements to the underlying PPP asset, as discussed in paragraph 21
- e. The amount of the initial measurement of the receivable for the underlying PPP asset, as discussed in paragraph 31.

33. A transferor subsequently should recognize the deferred inflow of resources as inflows of resources (for example, revenue) in a systematic and rational manner over the PPP term. The deferred inflow of resources generally should be adjusted by the same amount as any change resulting from the remeasurement of the receivable for installment payments, as discussed in paragraphs 27–30, or the remeasurement of the receivable for the underlying PPP asset, as discussed in paragraph 31, if applicable.

### **Financial statements prepared using the current financial resources measurement focus**

34. In financial statements prepared using the current financial resources measurement focus, a transferor should recognize a receivable for installment payments and a deferred inflow of resources to account for a PPP. A transferor should measure the deferred inflow of resources at the initial value of the receivable for installment payments, plus the amount of any payments received at or before the commencement of the PPP term (for example, an up-front payment associated with a PPP). A transferor subsequently should recognize the deferred inflow of resources as inflows of resources (for example, revenue), if available, in a systematic and rational manner over the PPP term.

### **Notes to Financial Statements—Transferors**

35. A transferor should disclose the following about its PPP activities (which may be grouped for purposes of disclosure):

- a. A general description of its PPP arrangements, including the status of projects during the construction period, if applicable, and the basis, terms, and conditions on which any variable payments not included in the measurement of the receivable for installment payments are determined
- b. The nature and amounts of assets and deferred inflows of resources related to PPPs that are recognized in the financial statements

- c. The discount rate or rates applied to the measurement of the receivable for installment payments, if any
- d. The amount of inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of the receivable for installment payments, including inflows of resources related to residual value guarantees and termination penalties
- e. The nature and extent of rights retained by the transferor or granted to the operator under the PPP arrangements.

36. Some PPP arrangements may include provisions for guarantees and commitments. For each period in which a guarantee or commitment exists, disclosures should be made about the guarantees and commitments, including identification, duration, and significant contract terms.

### ***Operator Recognition and Measurement for PPPs***

37. If an underlying PPP asset is an existing asset of a transferor, at the commencement of the PPP term, an operator should recognize:

- a. A liability for installment payments, if any, to be made in relation to the PPP, as discussed in paragraphs 40–48
- b. An intangible right-to-use asset (a capital asset hereinafter referred to as a right-to-use asset), as discussed in paragraphs 49–52.

38. If the underlying PPP asset is a new asset purchased or constructed by an operator and the PPP meets the definition of an SCA, at the commencement of the PPP term, the operator should recognize:

- a. A liability for installment payments, if any, to be made in relation to the PPP, as discussed in paragraphs 40–48
- b. A right-to-use asset, as discussed in paragraphs 49–52.

39. If an underlying PPP asset is a new asset purchased or constructed by an operator and the PPP does *not* meet the definition of an SCA, the operator should recognize the underlying PPP asset until ownership of the underlying PPP asset is transferred to the transferor, if applicable. An operator should continue to apply other accounting and financial reporting requirements rel-

event to the underlying PPP asset, including depreciation and impairment. When the underlying PPP asset is placed into service, the operator should recognize:

- a. A liability for the underlying PPP asset to be transferred to the transferor, if applicable, as discussed in paragraph 53
- b. A liability for installment payments, if any, to be made in relation to the PPP, as discussed in paragraphs 40–48
- c. A deferred outflow of resources for the underlying PPP asset to be transferred to the transferor, if any, as discussed in paragraph 54.

## **Liability for installment payments**

40. An operator initially should measure the liability for installment payments at the present value of PPP payments expected to be made during the PPP term. Measurement of the liability for installment payments should include the following, if required by a PPP:

- a. Fixed payments
- b. Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the PPP term
- c. Variable payments that are fixed in substance, as discussed in paragraph 41
- d. Amounts that are reasonably certain of being required to be paid by the operator under residual value guarantees
- e. Payments for penalties for terminating the PPP, if the PPP term reflects the operator exercising (1) an option to terminate the PPP or (2) a fiscal funding or cancellation clause
- f. Any other payments to the transferor associated with the PPP that are reasonably certain of being required based on an assessment of all relevant factors.

41. Variable payments, including payments related to revenue sharing arrangements,<sup>11</sup> based on future performance of the operator, usage of the underlying PPP asset, or variable factors other than an index or a rate, should not be included in the measurement of the liability for installment payments. Rather, those variable payments should be recognized as outflows of resources (for

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<sup>11</sup>For revenue sharing arrangements, an operator should recognize all revenue earned, including the amount of revenue shared with the transferor, that is associated with the operation of the underlying PPP asset.

example, expense) in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the liability for installment payments.

42. The future PPP payments should be discounted using the interest rate the transferor charges the operator, which may be the interest rate implicit in the PPP arrangement. If the interest rate cannot be readily determined by the operator, the operator's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the PPP installment payment amounts during the PPP term) should be used. The operator is not required to apply the guidance for imputation of interest in paragraphs 173–187 of Statement 62 but may do so as a means of determining the interest rate implicit in the PPP arrangement.

43. In subsequent financial reporting periods, an operator should calculate the amortization of the discount on the liability for installment payments and report that amount as an outflow of resources (for example, interest expense) for the period. Any PPP payments made should be allocated first to the accrued interest liability and then to the liability for installment payments.

44. An operator should remeasure the liability for installment payments at subsequent financial reporting dates if one or more of the following changes have occurred at or before those financial reporting dates, based on the most recent PPP arrangement before the changes,<sup>12</sup> and the changes individually or in the aggregate are expected to significantly affect the amount of the liability since the previous measurement:

- a. There is a change in the PPP term.
- b. An assessment of all relevant factors indicates that the likelihood of a residual value guarantee being paid has changed from reasonably certain to not reasonably certain, or vice versa.
- c. There is a change in the estimated amounts for payments already included in the measurement of the liability for PPP payments (except as provided in paragraph 45).
- d. There is a change in the interest rate the transferor charges the operator, if used as the initial discount rate.

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<sup>12</sup>Changes arising from amendments to a PPP arrangement should be accounted for under the provisions of paragraphs 66–75 for PPP modifications and terminations.

- e. A contingency, upon which some or all of the variable payments that will be made over the remainder of the PPP term are based, is resolved such that those payments now meet the criteria for measuring the liability for installment payments under paragraph 40. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying PPP asset to become fixed payments for the remainder of the PPP term.
- 45. If a liability for installment payments is remeasured for any of the changes in paragraph 44, the liability also should be adjusted for any change in an index or a rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A liability for installment payments is not required to be remeasured solely for a change in an index or a rate used to determine variable payments.
- 46. An operator also should update the discount rate as part of the remeasurement if there is a change<sup>13</sup> in the PPP term and that change is expected to significantly affect the amount of the liability for installment payments.
- 47. A liability for installment payments is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in an operator's incremental borrowing rate.
- 48. If a discount rate is required to be updated based on the provisions in paragraph 46, the discount rate should be based on the revised interest rate the transferor charges the operator at the time the discount rate is updated. If that interest rate cannot be readily determined, the operator's estimated incremental borrowing rate at the time the discount rate is updated should be used.

### **Right-to-use asset**

- 49. An operator should initially measure the right-to-use asset as the sum of the following when the underlying PPP asset is placed into service:
  - a. The amount of the initial measurement of the liability for installment payments, if applicable, as discussed in paragraph 40

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<sup>13</sup>See footnote 12.

- b. PPP payments made to the transferor at or before the commencement of the PPP term, if applicable (for example, an up-front payment associated with a PPP)
- c. The cost of the purchased or constructed underlying PPP asset, if the PPP meets the definition of an SCA
- d. The cost of improvements to an existing underlying PPP asset
- e. Initial direct costs that are ancillary charges necessary to place the right-to-use asset into service.

Any initial direct costs that would be considered debt issuance costs under paragraph 12 of Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, should be recognized as outflows of resources (for example, expense) in the period in which they are incurred.

50. A right-to-use asset should be amortized in a systematic and rational manner over the shorter of the PPP term or the useful life of the underlying PPP asset. The amortization of the right-to-use asset should be reported as an outflow of resources (for example, amortization expense), which may be combined with depreciation expense related to other capital assets for financial reporting purposes.

51. A right-to-use asset generally should be adjusted by the same amount as the corresponding liability for installment payments when that liability is re-measured based on paragraphs 44–48. However, if that change reduces the carrying value of the operator's right-to-use asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain).

52. The presence of impairment indicators (described in paragraph 9 of Statement 42) with respect to an underlying PPP asset may result in a change in the manner or duration of use of the right-to-use asset. Such a change in the manner or duration of use of the right-to-use asset may indicate that the service utility of the underlying PPP asset is impaired. The length of time during which the operator cannot use the underlying PPP asset, or is limited to using it in a different manner, should be compared to its previously expected manner and duration of use to determine whether there is a significant decline in service utility of the right-to-use asset. If the underlying PPP asset is impaired, the amount reported for the right-to-use asset should be reduced first for any change in the corresponding liability. Any remaining amount should be recognized as an impairment.

## **Liability for the underlying PPP asset**

53. If the operator is required to transfer the underlying PPP asset to the transferor during or at the end of the PPP term, the operator should measure the liability based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership to the transferor. That liability should be remeasured if there is a change in the PPP term and the change is expected to significantly affect the amount of the estimated carrying value of the underlying PPP asset as of the date of the transfer of ownership. The liability for the underlying PPP asset should be remeasured if there is a PPP modification, as discussed in paragraphs 68, 71, and 72 or PPP termination, as discussed in paragraphs 73 and 75.

## **Deferred outflow of resources**

54. If the operator is required to transfer the underlying PPP asset to the transferor during or at the end of the PPP term, the operator should recognize a deferred outflow of resources equal to the estimated carrying value of the underlying PPP asset as of the expected date of the transfer of ownership. The operator subsequently should recognize the deferred outflow of resources as outflows of resources (for example, expense) in a systematic and rational manner over the remaining PPP term.

## **Financial statements prepared using the current financial resources measurement focus**

55. If a PPP is expected to be paid from general government resources, the PPP should be accounted for and reported on a basis consistent with governmental fund accounting principles.

56. An expenditure and other financing source should be reported in the period the PPP is initially recognized. The expenditure and other financing source should be measured as provided in paragraphs 40–42. Subsequent governmental fund PPP payments should be accounted for consistent with the principles for debt service payments of long-term debt.

## **Notes to Financial Statements—Operators**

57. An operator should disclose the following about its PPP activities (which may be grouped for purposes of disclosure):

- a. A general description of its PPP arrangements, including the status of projects during the construction period, if applicable, and the basis, terms, and conditions on which any variable payments not included in the measurement of the liability for installment payments are determined
- b. The nature and amounts of assets, liabilities, and deferred outflows of resources related to PPPs that are recognized in the financial statements
- c. The discount rate or rates applied to the measurement of the liability for installment payments, if any
- d. Principal and interest requirements to maturity, presented separately, for the liability for installment payments for each of the five subsequent fiscal years and in five-year increments thereafter
- e. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the liability for installment payments
- f. The nature and extent of rights granted to the operator or retained by the transferor under PPP arrangements
- g. The components of any loss associated with an impairment (the impairment loss and any related change in the liability, as discussed in paragraph 52).

58. For disclosure purposes, an operator's liability for installment payments is not considered debt that is subject to the disclosure requirements of Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

59. Some PPP arrangements may include provisions for guarantees and commitments. For each period in which a guarantee or commitment exists, disclosures should be made about the guarantees and commitments, including identification, duration, and significant contract terms.

## **PPPs with Multiple Components**

60. A transferor or an operator may enter into PPP arrangements that contain multiple components, such as a contract that contains both a PPP component and a non-PPP component, or a PPP that contains multiple underlying PPP assets.

61. If a transferor or an operator enters into an arrangement that contains both a PPP component (such as the right to operate a facility) and a non-PPP component (such as maintenance services for the facility), the transferor or the operator should account for the PPP and non-PPP components as separate arrangements unless the contract meets the exception in paragraph 64.

62. If a PPP involves multiple underlying PPP assets and those assets have different PPP terms, a transferor and an operator should account for each underlying PPP asset as a separate PPP component. In addition, the operator should account for each underlying PPP asset as a separate PPP component if the underlying PPP assets are in different major classes of asset. The provisions of this paragraph should be applied unless the contract meets the exception in paragraph 64.

63. To allocate the contract price to the different components, a transferor or an operator first should use any prices for individual components that are included in the contract, as long as the price allocation does not appear to be unreasonable based on the terms of the contract and professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices). Stand-alone prices are those that would be paid or received if the same or similar assets were acquired individually or if the same or similar non-PPP components (such as maintenance services) were contracted individually. Some contracts provide discounts for including multiple PPPs or PPP and non-PPP components together in one contract. Those discounts may be taken into account when determining whether individual component prices do not appear to be unreasonable. For example, if the individual component prices each are discounted by the same percentage as normal market prices, the discount included in those component prices would not appear to be unreasonable.

64. If a contract does not include prices for individual components, or if any of those prices appear to be unreasonable as provided in paragraph 63, a transferor or an operator should use professional judgment to determine their best estimate for allocating the contract price to those components, maximizing the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a transferor or an operator should account for those components as a single PPP.

65. If multiple components are accounted for as a single PPP as provided for in paragraph 64, the accounting for that PPP should be based on the primary PPP component within that PPP. For example, the primary PPP component's term should be used for the PPP if those components have different terms.

### ***PPP Modifications and Terminations***

66. The provisions of a PPP arrangement may be amended while the arrangement is in effect. Amendments modify the provisions of the PPP arrangement. Examples of amendments to PPP arrangements include changing the price of the arrangement, lengthening or shortening the PPP term, adding or removing an underlying PPP asset, and changing the index or rate upon which variable payments depend. An amendment should be considered a PPP modification unless the operator's right to use the underlying PPP asset decreases, in which case the amendment should be considered a partial or full PPP termination. By contrast, exercising an existing option, such as an option to extend or terminate the PPP arrangement, as discussed in paragraphs 13a and 13b, is subject to the guidance for remeasurement.

67. If variable payments of a PPP depend on an interbank offered rate (IBOR), an amendment of the PPP solely to replace the IBOR with another rate (that is adjusted, if necessary, to essentially equate the replacement rate and the original rate) by either changing the rate or adding or changing fallback provisions related to the rate, is not a modification to the PPP arrangement.

### **PPP modifications**

68. A transferor and an operator should account for an amendment during the reporting period resulting in a modification to a PPP arrangement as a separate PPP (that is, separate from the most recent PPP arrangement before the modification) if both of the following conditions are present:

- a. The PPP modification gives the operator an additional underlying PPP asset by adding one or more underlying PPP assets that were not included in the original PPP arrangement.
- b. The increase in PPP payments for the additional underlying PPP asset does not appear to be unreasonable based on (1) the terms of the amended PPP arrangement and (2) professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices).

### ***Transferors***

69. Unless a modification is reported as a separate PPP as provided in paragraph 68, a transferor should account for a PPP modification by re-measuring the receivable for installment payments, if any, and the receivable for the underlying PPP asset, as discussed in paragraph 31, if applicable. The deferred inflow of resources should be adjusted by the difference between the remeasured receivables and the receivables immediately before the PPP modification. However, to the extent that the change relates to payments for the current period, the change should be recognized as an inflow of resources (for example, revenue) or an outflow of resources (for example, expense) for the current period.

70. If prior to the expiration of the PPP term a change to the provisions of a PPP results from a debt refunding by either a transferor in which the perceived economic advantages of the refunding are passed through to an operator or an operator in which the perceived economic advantages of the refunding are retained by the operator, the transferor should adjust the receivable for installment payments to the present value of the future PPP payments, if any, based on the interest rate applicable to the revised PPP arrangement and also should adjust the deferred inflow of resources. The adjustment to the deferred inflow of resources should be recognized as an inflow of resources or an outflow of resources (for example, gain or loss) over the remaining life of the old debt or the life of the new debt, whichever is shorter.

### ***Operators***

71. Unless a modification is reported as a separate PPP as provided in paragraph 68, an operator should account for a PPP modification by re-measuring the liability for installment payments, if any, and the liability for the underlying PPP asset, as discussed in paragraph 53, if applicable. The right-to-use asset should be adjusted by the difference between the remeasured liability for installment payments and the liability for installment payments immediately before the PPP modification. However, if the change reduces the carrying value of the right-to-use asset to zero, any remaining amount should be reported in the resource flows statement (for example, a gain). A deferred outflow of resources, as discussed in paragraph 54, should be adjusted by the difference between the liability for the underlying PPP asset and the liability for the underlying PPP asset immediately before the PPP modification.

72. If prior to the expiration of the PPP term a change to the provisions of a PPP results from a debt refunding by either a transferor, including an advance refunding in which the perceived economic advantages of the refunding are passed through to the operator or an operator in which the perceived economic advantages of the refunding are retained by the operator, the change should be accounted for as follows:

- a. If a change to the provisions of a PPP results from a debt refunding by the transferor or the operator, including an advance refunding that results in a defeasance of debt, the operator should adjust the liability for installment payments to the present value of the future PPP payments under the revised PPP using the effective interest rate applicable to the revised PPP arrangement. The resulting difference should be reported as a deferred outflow of resources or a deferred inflow of resources. The deferred outflow of resources or the deferred inflow of resources should be recognized as an adjustment to the outflow of resources (for example, as an increase or decrease to interest expense) in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- b. If (1) the provisions of a PPP are changed in connection with an advance refunding by the transferor that results in a defeasance of debt and (2) the operator is obligated to reimburse the transferor for any costs related to the refunded debt that have been or will be incurred (such as an unamortized discount or a call premium), the operator should recognize those costs in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

## **PPP terminations**

73. A transferor and an operator should account for an amendment during the reporting period resulting in a decrease in the operator's right to use the underlying PPP asset (for example, the PPP term is shortened or the number of underlying assets is reduced) as a partial or full PPP termination.

### ***Transferors***

74. A transferor generally should account for the partial or full PPP termination by recognizing a gain or loss for the sum of the following, if applicable:

- a. The reduction in the carrying value of any deferred inflow of resources related to receivables for installment payments for (1) the reduction in the carrying value of the receivable for installment payments, (2) termination penalties paid to the operator, and (3) amounts paid to the operator to purchase the underlying PPP asset
- b. The reduction in the carrying value of any deferred inflow of resources related to the PPP payments received from the operator at or before the commencement of the PPP term but not to less than zero for (1) termination penalties paid to the operator and (2) amounts paid to the operator to purchase the underlying PPP asset
- c. The reduction in the carrying value of any deferred inflow of resources related to the initial measurement of the underlying PPP asset or improvements to the underlying PPP asset but not to less than zero for (1) termination penalties paid to the operator and (2) amounts paid to the operator to purchase the underlying PPP asset
- d. The reduction in the carrying value of any deferred inflow of resources related to the receivable for the underlying PPP asset but not to less than zero for (1) the reduction in carrying value of the receivable for the underlying PPP asset, (2) termination penalties paid to the operator, and (3) amounts paid to the operator to purchase the underlying PPP asset.

### ***Operators***

75. An operator generally should account for the partial or full PPP termination by recognizing a gain or loss for the sum of the following, if applicable:

- a. The reduction of the carrying values of (1) the right-to-use asset related to the liability for installment payments and (2) the liability for installment payments
- b. The reduction of the carrying value of the right-to-use asset related to PPP payments made to the transferor at or before the commencement of the PPP term, but not to less than zero, for (1) the carrying value of the liability for the underlying PPP asset, (2) termination penalties received from the transferor, and (3) amounts received from the transferor to acquire the underlying PPP asset

- c. The reduction of the carrying value of the right-to-use asset related to the cost of a purchased or constructed underlying PPP asset or the cost of improvements to an existing underlying PPP asset, but not to less than zero, for termination penalties received from the transferor
- d. The reduction of the carrying value of the right-to-use asset related to initial direct costs that are ancillary charges necessary to place the right-to-use asset into service.

## **Accounting and Financial Reporting for APAs**

76. An APA may contain multiple components. For example, a government enters into an agreement with an operator to design, construct, finance, operate, and maintain a public toll road in exchange for (a) fixed payments designed to compensate the operator for the design, construction, financing, operation, and maintenance of the toll road and (b) variable payments to the operator based on whether measures related to availability have been met. If the APA contains multiple components, the requirements in paragraphs 79–83 should be applied to recognize each component as a separate arrangement, if applicable.

77. Components of an APA that are related to the design, construction, or financing of a nonfinancial asset in which ownership of the asset transfers to the government by the end of the contract should be reported as a financed purchase by the government of the underlying nonfinancial asset.

78. Components of an APA that are related to providing services for the operation or maintenance of a nonfinancial asset should be accounted for as outflows of resources (for example, expense) by the government in the period to which the payments relate.

## **APAs with Multiple Components**

79. If a government enters into an APA that contains both (a) a component related to the design, construction, or financing of a nonfinancial asset and (b) a component related to providing services for the operation or maintenance of a nonfinancial asset, the government should account for those components as separate contracts unless the contract meets the exception in paragraph 82.

80. If an APA involves multiple underlying nonfinancial assets and those assets have different terms, a government should account for each nonfinancial asset as a separate component. In addition, the government should account for each nonfinancial asset as a separate component if the assets are in different major classes of asset. The provisions of this paragraph should be applied unless the contract meets the exception in paragraph 82.

81. To allocate the contract price to the different components, a government first should use any prices for individual components that are included in the contract, as long as the price allocation does not appear to be unreasonable based on the terms of the contract and professional judgment, maximizing the use of observable information (for example, using readily available observable stand-alone prices). Stand-alone prices are those that would be paid or received if the same or similar nonfinancial assets were acquired individually or if the same or similar services for the operation or maintenance of the nonfinancial assets were contracted individually. Some contracts provide discounts for including multiple assets or asset and service components together in one contract. Those discounts may be taken into account when determining whether individual component prices do not appear to be unreasonable. For example, if the individual component prices each are discounted by the same percentage as normal market prices, the discount included in those component prices would not appear to be unreasonable.

82. If a contract does not include prices for individual components, or if any of those prices appear to be unreasonable as provided in paragraph 81, a government should use professional judgment to determine its best estimate for allocating the contract price to those components, maximizing the use of observable information. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single contract.

83. If multiple components are accounted for as a single contract as provided for in paragraph 82, the accounting for that APA should be based on the primary component of the contract.

## EFFECTIVE DATE AND TRANSITION

84. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

85. Changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior fiscal years presented. If restatement for prior fiscal years is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position for the earliest fiscal year restated. Also, the reason for not restating prior fiscal years presented should be disclosed. In the first fiscal year that this Statement is applied, the notes to financial statements should disclose the nature of the restatement and its effect.

86. PPPs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year of implementation. If applied to earlier fiscal years, PPPs should be recognized and measured using the facts and circumstances that existed at the beginning of the earliest fiscal year restated.

**The provisions of this Statement need  
not be applied to immaterial items.**

*This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.*

David A. Vaudt, *Chairman*  
Jeffrey J. Previdi, *Vice Chairman*  
James E. Brown  
Brian W. Caputo  
Michael H. Granof  
Kristopher E. Knight  
Carolyn Smith

## Appendix A

### BACKGROUND

A1. Arrangements between governments and private entities or other governments have become more prevalent. Those arrangements, often referred to as public-private or public-public partnerships (collectively, PPPs), generally result in the government transferring the obligation to provide certain public services to an external entity. Prior to the issuance of this Statement, specific guidance applicable to PPPs included Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, as amended. However, Statement 60, as amended, did not address all types of PPPs. As a result, stakeholders inquired about the proper reporting for those transactions.

A2. Members of the Governmental Accounting Standards Advisory Council (GASAC) ranked the priority of PPPs in the top four among all pre-agenda research activities and potential standards-setting topics at their March 2017 meeting. GASAC members also commented favorably on the possibility of performing pre-agenda research on PPPs. As a result of the need for guidance based on stakeholder inquiries received by the GASB and the feedback from the GASAC, the Board initiated pre-agenda research activities on PPPs in April 2017.

A3. The pre-agenda research reexamined the existing guidance for service concession arrangements (SCAs) and considered potential additional guidance for PPPs not within the scope of Statement 60, as amended. That research consisted of (a) examining the information governments disclose in notes to financial statements related to SCAs under the disclosure requirements in Statement 60, as amended; (b) interviews with users, preparers, and auditors about issues in practice related to accounting and financial reporting for PPPs; and (c) a survey for users, preparers, and auditors regarding the perceived effectiveness of Statement 60, as amended, and the sufficiency of existing standards for reporting PPPs.

A4. Based on findings from the pre-agenda research, the Board added the PPP project to its current technical agenda in April 2018. The Board began deliberations in May 2018. A task force of 15 members broadly representative of the GASB's stakeholders was assembled.

A5. In June 2019, the Board issued an Exposure Draft, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The Board received 32 responses to the Exposure Draft from organizations and individuals. As discussed throughout Appendix B, comments and suggestions from those sources contributed to the requirements of this Statement.

A6. The task force members reviewed and commented on papers prepared for the Board's deliberations and on drafts of the Exposure Draft and final Statement. In addition, feedback was provided by GASAC members at five of their meetings during the Board's deliberations. The Board's consideration of the individual GASAC members' feedback is incorporated throughout Appendix B. When project issues are discussed with the task force and GASAC members, the groups do not take formal positions, either in support or opposition, with regard to those issues.

## **Appendix B**

### **BASIS FOR CONCLUSIONS**

#### **Introduction**

B1. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

#### **Overview**

B2. The primary objective of this project was to consider (a) potential amended or new implementation guidance to better address accounting and financial reporting for SCAs within the scope of Statement 60, as amended, and (b) potential additional accounting and financial reporting guidance for types of PPPs not within the scope of Statement 60, as amended, or Statement No. 87, *Leases*, as amended. In determining potential improvements to accounting and financial reporting for SCAs, the Board considered stakeholder feedback from the pre-agenda research that noted that the recognition, measurement, and remeasurement provisions for lessees and lessors in Statement 87, as amended, are substantially more comprehensive than the amended Statement 60 guidance for an SCA transferor or an operator. Because of the similarity of those requirements, when considering both SCAs and PPPs not within the scope of either Statement 60, as amended, or Statement 87, as amended, the Board first examined whether certain requirements in Statement 60, as amended, should be applied to a broader range of PPPs. Ultimately, because of the more extensive guidance in the leases standards compared with the SCA standards, the Board decided to supersede Statement 60, as amended, and include all guidance related to accounting and financial reporting for SCAs as part of this Statement.

## Scope and Applicability

B3. The Board decided to define a PPP in this Statement as an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction. That definition contains several 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. First, the operator in a PPP provides public services. The Board believes that providing public services is a higher threshold of involvement than the mere participation of a government in a transaction. Second, a PPP involves the control of the right to operate or use a nonfinancial asset. The Board concluded that the right to operate or use a nonfinancial asset excludes general maintenance contracts from being considered PPPs for financial reporting purposes.

B4. The definition of a PPP in the Exposure Draft referred to infrastructure or other nonfinancial assets as being the underlying PPP asset. Some respondents noted that nonfinancial assets include infrastructure and that by specifically mentioning infrastructure, agreements that include other capital assets as the underlying PPP asset may not be interpreted as meeting the definition of a PPP. As a result, the Board amended the definition of a PPP to refer to the underlying PPP asset as a nonfinancial asset and to include infrastructure and other capital assets as examples of a nonfinancial asset. Some respondents also noted that intangible assets were not excluded from the scope of this Statement as they were from the scope of Statement 87, as amended. The Board determined that arrangements that include an underlying PPP asset that is an intangible asset that otherwise meets the definition of a PPP should be treated the same as arrangements that include an underlying PPP asset that is a tangible asset. Therefore, the definition of a PPP does not exclude arrangements in which the underlying PPP asset is an intangible asset.

B5. The Board considered other portions of the definition of an SCA introduced in Statement 60, as amended, in developing the definition of a PPP. However, the definition of an SCA focuses on the transferor's control of the use of the underlying asset. That control is indicated by (a) the ability of the transferor to determine or regulate the services the operator is required to provide, to whom the operator is required to provide the services, and the price ranges or rates that can be charged for the services, and (b) the transferor being entitled to

significant residual interest in the service utility of the underlying asset at the end of the arrangement. Based on the results of the pre-agenda research, the Board recognizes that there are PPPs over which the transferor does not have that level of control and that are not specifically addressed in Statement 87, as amended. Therefore, the Board decided not to include those characteristics of an SCA in the definition of a PPP.

B6. Some respondents to the Exposure Draft requested a definition of *public services* as that term is used in the definition of a PPP. The Board believes that governments understand that the services provided through a PPP are considered public services and that the term does not need to be defined.

B7. The Board also considered amendments to the definition of an SCA. The Board decided to retain the definition of an SCA except for a footnote stating that the public services provided by the SCA relate to the primary function of the underlying PPP asset rather than ancillary services operated in conjunction with the underlying PPP asset. After determining that the accounting and financial reporting requirements for PPPs that do not meet the definition of an SCA or are within the scope of Statement 87, as amended (as clarified in this Statement) should be similar to the requirements related to SCAs, the Board decided not to limit the definition of an SCA to the primary function of the underlying PPP asset.

B8. The pre-agenda research also identified transactions in which a government compensates an operator for activities that are related to designing, constructing, financing, maintaining, or operating a nonfinancial asset commonly referred to as availability payment arrangements (APAs). APAs are similar to PPPs except that the government retains demand risk and responsibility for fee collection associated with the use of the underlying asset. That is, instead of the other entity (the operator) being conveyed the right and obligation by the government to provide public services through the use of the underlying asset and being compensated from third parties, the government is compensating the other entity for either providing an asset to the government or performing services on behalf of the government. To clarify that APAs are not PPPs, the Board decided to define APAs and include specific accounting and financial reporting guidance for APAs in this Statement. Some respondents to the Exposure Draft did not agree that APAs are different from PPPs. To further identify the differences between the two types of arrangements, the Board decided to add additional clarification after the definition of an APA in paragraph 7 that contrasts key features of APAs with those of PPPs.

## **Recognition and Measurement of PPPs**

B9. Some respondents requested that all PPPs, including SCAs, apply the accounting and financial reporting requirements for leases. As previously discussed, the Board determined that additional guidance is necessary for the recognition and measurement of PPPs. The Board decided that accounting and financial reporting requirements for SCAs introduced in Statement 60, as amended, generally should be applicable to PPPs that meet the definition of an SCA in this Statement. Although some components of an SCA also may meet the definition of a lease (for example, existing underlying assets), the Board concluded that in an effort to reduce the complexity of applying accounting and financial reporting standards, the specific guidance provided in this Statement for SCAs should apply to all SCAs. As discussed in paragraph B10, the Board determined that additional guidance should be added to the accounting and financial reporting requirements for SCAs introduced in Statement 60, as amended. In addition to SCAs, other PPPs may have existing underlying assets that meet the definition of a lease but have unique features that require specific accounting guidance. Those features include both improvements to an existing underlying asset made by operators and the need to separate multiple components of a PPP that includes an existing underlying asset that meets the definition of a lease and a new asset that will be purchased or constructed by the operator that is outside the scope of Statement 87, as amended. Again, the Board concluded that to reduce the complexity of applying accounting and financial reporting standards (for example, applying this Statement to one component of the PPP and Statement 87, as amended, to another component), the specific guidance provided in this Statement should apply to PPPs that have those features. For PPPs other than SCAs that meet the definition of a lease in which an existing asset is the only underlying asset, the Board concluded that the provisions of Statement 87, as amended, still should be applicable.

B10. The Board believes that SCAs and leases generally should be accounted for in a similar manner. However, as previously noted, Statement 87, as amended, includes more extensive guidance for the recognition and measurement of lease assets of lessors and lease liabilities of lessees than Statement 60, as amended, does for transferor assets and operator liabilities. Also as previously noted, the Board considered whether to amend the requirements in Statement 60, as amended, to include that guidance or to supersede Statement 60, as amended, and include the guidance in this Statement. Because of the numerous amendments that would be necessary to bring Statement 60, as amended, in line with the provisions introduced in Statement 87, as amended,

the Board decided that it is more appropriate to supersede Statement 60, as amended, and include the guidance for SCAs and all other PPPs in this Statement. In addition to specific measurement requirements, the Board also decided to include in this Statement the provisions of Statement 87, as amended, related to determining the PPP term, as discussed in paragraph B14; contracts with multiple components, as discussed in paragraphs B32–B34; and contract modifications and terminations, as discussed in paragraphs B35 and B36.

B11. In addition to PPPs that are within the scope of Statement 87, as amended (as clarified in this Statement), and SCAs, the Board considered the need to provide specific guidance when the operator purchases or constructs an asset in which ownership will be transferred to the transferor at the end of the arrangement. An example of such a transaction would be an operator building and owning a new capital asset to provide additional governmental services, such as a college dormitory. In exchange for transferring ownership of the capital asset to the transferor at the end of the arrangement, the operator is allowed to set the price or rate that will be charged to users of the capital asset during the arrangement. Although the Board considered amending the definition of an SCA to encompass such transactions, the Board believes that those transactions are different from SCAs because the transferor does not control the rates being charged.

B12. For PPPs that do not meet the definition of an SCA, the Board considered whether the transferor should recognize an asset if title to the underlying PPP asset passes to the transferor at the end of the arrangement. Because the receipt of the underlying PPP asset at the end of the arrangement by the transferor is part of the exchange or exchange-like transaction underlying the PPP, the Board believes that when the underlying PPP asset is placed into service, the transferor has a receivable for the right to receive the underlying PPP asset at the end of the arrangement.

B13. Some respondents to the Exposure Draft did not agree that the requirements for recognition and measurement should be different for PPPs that meet the definition of an SCA versus PPPs that do not meet the definition of an SCA. Those respondents generally believe that because the substance of a PPP is the same regardless of the form in which the transferor or the operator has ownership of the underlying PPP assets during the arrangement, all PPPs should be accounted for in the same manner. As discussed in paragraph B12, the Board believes that a PPP that meets the definition of an SCA and a PPP that does not meet the definition of an SCA have different levels of control of the

underlying PPP asset being used to provide the public service. Manifestation of that control is displayed by either owning the underlying PPP asset or having the abilities required to meet the definition of an SCA—in other words, being able to determine (a) what public services are provided, (b) to whom those services are provided, (c) the rates charged for those services, and (d) the receipt of a significant residual interest in the underlying asset at the end of the arrangement. Therefore, the Board determined that additional accounting and financial reporting guidance should be developed for this type of PPP, which does not meet the definition of an SCA.

B14. As discussed in paragraph B10, the Board decided that the requirements related to the measurement of a lease term in Statement 87, as amended, should be applied to define the PPP term so that the term reflects how long the PPP arrangement is expected to be in effect. In addition, the guidance related to reassessing the lease term in Statement 87, as amended, also was applied to PPPs specifically addressed in this Statement. Although Statement 87, as amended, contains the requirement that leases for which a maximum possible lease term is less than 12 months apply different recognition and measurement requirements than other leases, the Board believes that short-term arrangements do not occur in PPPs.

## **Types of PPPs**

B15. Because of the different scenarios discussed above, the recognition guidance for PPPs other than SCAs that are not required to apply the provisions of Statement 87, as amended, is separated into three types for both a transferor and an operator, as follows:

- a. The underlying PPP asset is owned by the transferor and that underlying PPP asset will be improved by the operator.
- b. The underlying PPP asset is a new asset purchased or constructed by the operator and the PPP meets the definition of an SCA.
- c. The underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does *not* meet the definition of an SCA.

## **Transferor Recognition and Measurement**

B16. For an underlying PPP asset that is owned by the transferor in a PPP arrangement that does not meet the definition of an SCA and is not within the scope of Statement 87, as amended (as clarified by this Statement), the Board

concluded that the transferor should continue to report the underlying PPP asset. In addition, for the underlying asset in a PPP that meets the definition of an SCA and is (a) owned by a transferor, (b) a new asset purchased or constructed by the operator, or (c) an existing asset of the transferor that is to be improved by the operator, the Board believes that the transferor should recognize the underlying PPP asset using an approach similar to the approach introduced in Statement 60, as amended, is for SCAs. The Board noted that the approach in Statement 60, as amended, is conceptually similar to the lessor accounting guidance in Statement 87, as amended.

B17. If the underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does *not* meet the definition of an SCA, as previously noted, the Board believes that the transferor has an asset for the right to receive the underlying PPP asset that should be recognized when the underlying PPP asset is placed into service. The Board believes that is the appropriate time for the transferor to recognize an asset related to the PPP because that is when the public service conveyed to the operator will begin to be provided. The Board also believes that because the transferor will not receive the underlying PPP asset until a future date when the value of the asset may be different, the transferor should measure the right to receive the underlying PPP asset based on the operator's estimated carrying value of the underlying PPP asset as of the future date of the transfer in ownership. Although the Board acknowledges that the estimated acquisition value theoretically should be the amount recognized for such an asset, the Board concluded that the benefit of a more relevant measurement, especially for arrangements that extend many years into the future, would not justify the cost of obtaining such a valuation. The Board decided that the operator's estimated carrying value of the underlying PPP asset as of the future date of the transfer in ownership is a more reasonably determined measurement. Some respondents to the Exposure Draft believe that the estimated carrying value of the operator will be difficult to estimate. However, the Board still believes that transferors can estimate that future carrying amount by applying its own capital asset policies to the underlying PPP asset.

B18. Some respondents to the Exposure Draft noted that the guidance related to PPPs that meet the definition of an SCA required recognition by the transferor of the underlying PPP asset when it is placed into *operation*, whereas new assets purchased or constructed for the transferor in a PPP that does not meet the definition of an SCA were required to be recognized when placed into *service*. To clarify that there was no intention to imply a difference between the two terms, the Board replaced all references to the date placed into operation

with the date placed into service. Other respondents expressed concerns related to recognizing some elements of a PPP at the commencement of the PPP term, such as receivables and payables related to installment payments, and other elements when the underlying PPP asset is placed into service. For the underlying asset in a PPP that meets the definition of an SCA, the Board believes that the transferor should recognize the underlying PPP asset using an approach similar to the approach introduced in Statement 60, as amended, for SCAs. As a result, the Board concluded that different elements of a PPP should be recognized at different points in time. Another respondent argued that a liability, rather than a deferred inflow of resources, should be recognized by a transferor for the consideration received as part of the PPP, whether monetary or in the form of an underlying PPP asset or improvements to an underlying PPP asset. The Board concluded that the recognition of a deferred inflow of resources was appropriate because the consideration received in relation to the PPP is applicable to future periods as public service is provided by the operator.

B19. As discussed in paragraph B10, although the measurement of a lease asset by a lessor required by Statement 87, as amended, is conceptually similar to the measurement of an SCA asset by a transferor originally required by Statement 60, as amended, the requirements in Statement 87, as amended, are more extensive. This Statement applies the measurement requirements introduced in Statement 87, as amended, for installment payments to PPPs that do not meet the definition of a lease. Those requirements include consideration of payment types that are not specifically included in Statement 60, as amended, such as variable payments that are fixed in substance and payments of certain penalties for termination. In addition, the Board concluded that a transferor should discount a receivable for installment payments to present value and remeasure the receivable in certain circumstances, similar to the Statement 87, as amended, requirement that a lessor discount and remeasure a lease asset in certain circumstances.

B20. In applying the requirements highlighted in paragraph B16 to PPPs, the Board noted that Statement 60, as amended, required a transferor to recognize a liability for certain obligations to sacrifice financial resources in relation to the SCA. Statement 60, as amended, also required the deferred inflow of resources related to the SCA to be reduced by the amount of such liabilities. As discussed in paragraphs B32–B34, the Board determined that governments generally should recognize separately the components of PPPs with multiple components. Applying the multiple component provisions of this Statement to a transferor's obligation to sacrifice resources in relation to the PPP results in that sacrifice of resources being a separate, non-PPP component of the arrange-

ment. The Board concluded that a separate, non-PPP component of the arrangement should follow the accounting and financial reporting requirements for similar types of transactions, rather than be accounted for with the PPP component of the arrangement. As a result, the Board did not include a requirement in this Statement for a transferor to measure such liabilities at the inception of a PPP.

## **Operator Recognition and Measurement**

B21. The Board believes that if the underlying PPP asset is owned by the transferor, or is an existing asset of the transferor that is to be improved by the operator, an operator should recognize an intangible right-to-use asset, similar to the original requirements in Statement 60, as amended, for SCAs, as discussed in paragraph B24. Because the installment payments to be made to the transferor are a present obligation to sacrifice resources, the Board concluded that the operator also should recognize a liability for those payments, measured as discussed in paragraph B25.

B22. If the underlying PPP asset is a new asset purchased or constructed by the operator, and the PPP meets the definition of an SCA, the Board believes that the provisions originally introduced in Statement 60, as amended, should be applied. Therefore, the Board requires an operator to recognize an intangible right-to-use asset for the underlying PPP asset, as discussed in paragraph B24. The Board concluded that the operator also should recognize a liability for any installment payments to be made to the transferor, measured as discussed in paragraph B25. The Board noted that those requirements are consistent with the lessee accounting guidance in Statement 87, as amended.

B23. If the underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does *not* meet the definition of an SCA, the Board believes that the operator has a liability for the underlying PPP asset to be transferred to the transferor. The Board believes that liability should be measured based on the estimated carrying value of the underlying PPP asset as of the future date of the transfer in ownership. The Board determined that the estimated carrying value of the underlying PPP asset as of the future date of the transfer in ownership should be used for the measurement of the liability for the same reasons the transferor should use that measurement as discussed in paragraph B17. The Board also decided that a deferred outflow of resources should be recognized and measured in the same manner as the liability to

transfer the underlying PPP asset to the transferor. The Board also concluded that an operator should recognize a liability for any installment payments to be made to the transferor, measured as discussed in paragraph B25.

B24. Similar to the requirements for an operator in an SCA to report an intangible asset for the right to access a facility (Statement 60, as amended) and for a lessee to report an intangible right-to-use asset for the right to use a leased asset (Statement 87, as amended), the Board believes that an operator in a PPP that is not within the scope of Statement 87, as amended (as clarified in this Statement), should recognize an asset for the right to use the asset either owned or otherwise controlled by a transferor. Therefore, the Board concluded that an operator should recognize an intangible right-to-use asset in those circumstances.

B25. As discussed in paragraph B10, although the measurement of a lease liability by a lessee required by Statement 87, as amended, is conceptually similar to the measurement of an SCA liability by an operator required by Statement 60, as amended, the requirements in Statement 87, as amended, are more extensive. This Statement applies similar requirements related to the measurement of a liability for installment payments, and for discounting and remeasuring that liability, as discussed in paragraph B19 for similar measurements of a transferor's receivable for installment payments. The Board did determine, however, that the guidance in footnote 3 to Statement 87 related to cash flow reporting for payments allocated to interest due to the liability being discounted, was not necessary. The Board believes that existing accounting and financial reporting standards sufficiently convey that requirement. In addition, the Board decided that the requirement to include any other payments that are reasonably certain of being required based on an assessment of all relevant factors in the measurement of installment payments should clearly state that only payments made to the transferor as part of the PPP should be included.

B26. As discussed in paragraphs B32–B34, the Board determined that governments generally should recognize separately the components of PPPs with multiple components. As a result, this Statement does not include a requirement for an operator to measure liabilities for certain obligations to sacrifice financial resources related to a PPP at its inception. Instead, the operator should apply the requirements related to multiple components to measure those liabilities.

## **Recognition in Financial Statements Prepared Using the Current Financial Resources Measurement Focus**

B27. Similar to Statement 60, as amended, the Exposure Draft did not propose guidance for recognition of PPPs in financial statements prepared using the current financial resources measurement focus. Some respondents to the Exposure Draft requested guidance in those circumstances. In response to that feedback, the Board decided to provide guidance for recognizing financial resources such as payments received at or before the commencement of the PPP term and installment payments similar to other up-front payments and receivables for leases in governmental funds.

## **Notes to Financial Statements**

B28. Applying the general approach for developing guidance in this Statement, the Board decided to develop the disclosure requirements from both a transferor and an operator perspective based on the original disclosure requirements for SCAs in Statement 60, as amended. Those disclosures generally consist of (a) general descriptions of the SCA, including management's objectives for entering into the SCA and, if applicable, the status of the project during the construction period; (b) amounts recognized in the financial statements related to SCAs; (c) terms that could change future inflows and outflows, such as guarantees or commitments; and (d) the nature and extent of rights retained by the transferor or granted to the operator.

B29. The Board also considered lease disclosures required by Statement 87, as amended, that were not similar to disclosures originally required by Statement 60, as amended. Those disclosures include (a) principal and interest requirements to maturity, presented separately, for lease assets of lessors and lease liabilities of lessees, for each of the five subsequent fiscal years and in five-year increments thereafter; (b) impairment losses and related changes in lease liabilities for lessees; and (c) variable payments included in a receivable or liability for installment payments.

B30. With the exception of disclosures related to management's objectives for entering into an SCA, the Board decided to retain the disclosures discussed above based on the provisions of Statement 60, as amended, and supplement those requirements with relevant disclosures from Statement 87, as amended. The Board decided not to require the disclosure related to management's objectives because a similar disclosure is not required for other types of

transactions entered into by governments. In addition, because of the significant dollar amounts of some PPPs, the Board decided that both a transferor and an operator should disclose, if applicable, the interest rate used to discount a transferor's receivable for installment payments or an operator's liability for installment payments related to a PPP.

B31. Some respondents to the Exposure Draft do not believe that certain disclosures are essential to a user's understanding of financial position or inflows and outflows of resources, such as the nature and extent of the rights retained by the transferor or granted to the operator or the basis, terms, amounts recognized in the current period, and conditions on which any variable payment not included in the measurement or an installment receivable of a transferor or an installment payment of an operator. However, based on feedback received from financial statement users during the pre-agenda research, the Board concluded that those disclosures do provide essential information. Other respondents requested additional disclosures related to PPPs. Those respondents believe disclosures should be required for information related to timing of payments; advance funding requirements of commitments related to the PPP, if applicable; and description and amount of insurance or similar coverage related to the PPP, if applicable. After considering those potential disclosures, the Board concluded that such information is not essential to a user's understanding of PPPs recognized in basic financial statements and, therefore, decided not to add those disclosures.

## **PPPs with Multiple Components**

B32. Similar to some lease contracts, a PPP may include multiple components. The Board believes PPPs with service components or multiple underlying assets should be accounted for as if the components were in separate contracts, to faithfully represent the substance of the transactions. Therefore, the Board decided that governments generally should report separately the components of PPPs that have multiple components, unless it is not practicable to determine a best estimate for price allocation for some or all components in the contract underlying the PPP.

B33. To allocate the price to each component, this Statement provides the same guidance as required in Statement 87, as amended—to use prices for the individual components included in the contractual arrangements underlying the PPP, if applicable, as long as the prices do not appear to be unreasonable. In circumstances in which prices for individual components are not included in the

contractual arrangement underlying the PPP or those prices appear to be unreasonable, professional judgment should be applied to determine the prices, maximizing the use of observable information.

B34. This Statement also provides the same practical expedient as Statement 87, as amended, to account for an arrangement with multiple components as a single PPP if it is not practicable to determine the best estimate for price allocation for some or all of the components. In those circumstances, the Board does not believe the perceived benefits obtained from recognizing and measuring the multiple components separately justify the additional expected costs associated with separate reporting.

## **PPP Modifications and Terminations**

B35. PPP arrangements may be modified during the PPP term. For instance, the parties may agree to decrease the length of the PPP term, amend the payment terms, or add or remove underlying assets. In addition, the parties may agree to terminate the PPP prior to the end of the PPP term. The Board believes that modifications and terminations to PPPs should be accounted for in the same manner as modifications and terminations to leases addressed in Statement 87, as amended, with additional guidance for terminations in certain circumstances. Therefore, this Statement provides guidance for PPP modifications and terminations for a transferor and an operator similar to that in Statement 87, as amended.

B36. A respondent to the Exposure Draft noted that the provisions related to modifications and terminations did not specify differences between the assets and liabilities recognized by transferors and operators in PPPs. The Board clarified those provisions in this Statement.

## **APAs**

B37. As discussed in paragraph B8, the Board decided to provide accounting and financial reporting guidance related to APAs in this Statement. Although some APAs may be complex, the Board believes that the substance of those arrangements is the purchase of an asset or the payment for services. Therefore, the Board concluded that APA transactions should be accounted for as either a financed purchase of an asset or an outflow of resources in the period or periods to which APA payments relate based on the provisions of the arrangement.

B38. A respondent to the Exposure Draft expressed concern that the Exposure Draft referenced the section of guidance for multiple components related to PPPs when discussing APAs containing multiple components. The Board agreed with this concern and decided to separate the guidance for multiple components of an APA from the guidance for multiple components of a PPP in this Statement. In addition, some respondents to the Exposure Draft requested additional guidance on when to recognize assets or expenses related to APAs. Some respondents also requested guidance for recognition of multiple components of an APA in determining the period to which payments relate or whether a financed purchase exists. The Board determined that, similar to other contracted obligations of a government, governments understand how to account for financed purchases and how to determine the periods to which payments for services relate. Therefore, the Board decided not to provide additional guidance related to those issues. A respondent questioned whether an APA that is a financed purchase of an asset would meet the definition of debt for disclosure purposes in Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The Board concluded that the definition of *debt* for disclosure purposes in Statement 88 provides adequate guidance. Therefore, the Board chose not to provide specific guidance in relation to an APA that is a financed purchase of an asset.

## **Considerations Related to Benefits and Costs**

B39. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of the expected benefits and perceived costs. The Board strives to determine that its standards (including disclosure requirements) address a significant user need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

B40. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in accordance with GASB standards. The costs to implement the

standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze new information to meaningfully inform their assessments and decisions.

B41. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because no reliable and objective method has been identified for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs with the objective of achieving an appropriate balance between maximizing benefits and minimizing costs.

B42. The primary source of information on the expected benefits of this Statement is the pre-agenda research, which showed diversity in practice in accounting and financial reporting for PPPs and APAs due to the lack of specific guidance for these transactions. Diversity in practice diminishes the comparability, and therefore usefulness, of reported financial information. This Statement will reduce diversity in practice by providing specific, uniform guidance for PPPs and APAs.

B43. Information that the Board considered regarding the costs of implementing and complying with the provisions in this Statement came primarily from the anticipated costs of implementation of and ongoing compliance with Statement 87, as amended. Prior to the issuance of Statement 87, as amended, the Board gathered information on the perceived costs from a field test, as well as from the task force, GASAC members, and respondents to the due process documents that led to Statement 87, as amended.

B44. The Board considered the anticipated costs in two categories: general costs of applying the standards and costs of applying particular provisions. The Board recognizes that governments that enter into PPPs and APAs will incur costs in adopting this Statement. The Board believes its decisions to make the requirements in this Statement similar to the requirements introduced for SCAs in Statement 60, as amended, and for leases in Statement 87, as amended, will reduce the costs incurred to understand the provisions of this Statement. The Board decided that the requirement to measure a transferor's receivable and an operator's liability for the future transfer in ownership of an underlying PPP purchased or constructed by an operator in a PPP that does not meet the

definition of an SCA using the operator's estimated carrying value of the underlying PPP asset as of the future date of the transfer in ownership will reduce costs, as discussed in paragraph B23. In addition, the transition provisions discussed in paragraph B47 are intended to mitigate the costs of implementation.

B45. The Board considered the aggregate expected benefits and perceived costs associated with the entirety of the requirements in this Statement. The Board is cognizant that the costs of implementing the changes required by this Statement may be significant. However, the Board believes that the expected benefits that will result from the information provided through implementation of this Statement are significant and justify the perceived costs of implementation and ongoing compliance.

## **Effective Date and Transition**

B46. The Exposure Draft proposed an effective date for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The Board believes that effective date would have allowed adequate time for financial statement preparers to plan for the transition and implementation of the provisions of this Statement. Some respondents to the Exposure Draft requested a later effective date to allow governments more time to implement the provisions of this Statement. Although this Statement adds requirements for recognizing PPPs that do not meet the definition of an SCA, the Board believes that this Statement would not result in significant changes in the accounting and financial reporting for many PPPs. That is because those requirements are similar to accounting and financial reporting guidance in Statements 60 and 87, as amended. In addition, the Board believes the recognition requirements related to APAs for the financed purchase of assets or for the payment of services are consistent with current practice. However, as a result of the COVID-19 pandemic, the Board decided that an effective date for fiscal years beginning after June 15, 2022, and all reporting periods thereafter, was appropriate. The Board does encourage governments to implement the guidance earlier than the effective date.

B47. This Statement requires that PPPs be recognized and measured using the facts and circumstances that existed at the beginning of the period of implementation. The Board believes that it was not practical to require governments to return to the commencement of each PPP term and determine what

the balances would have been if this Statement had been in effect from that time. Therefore, the adjustments should be made based on the remaining PPP payments as of the beginning of the period of implementation or the beginning of any earlier periods restated.

B48. The provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. The phrase *if practicable* has been used in other GASB standards in a similar context as used in this Statement with respect to transition provisions that require restating the financial statements for all prior periods presented. The Board believes that reasonable efforts should be employed before a government determines that restatement of all prior periods presented is not practicable. In other words, *inconvenient* should not be considered equivalent to *not practicable*.



## Appendix C

### ILLUSTRATIONS

C1. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the approach illustrated. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here. Existing standards may require disclosures in addition to those illustrated.

#### **Illustration 1: Public-Public Partnership Arrangement for an Existing Tollway That Meets the Definition of a Service Concession Arrangement**

**Facts and Assumptions:** A State, through its State Department of Transportation (SDOT), the transferor, enters into an arrangement with the Metropolitan Tollway Authority (MTA), an operator, involving the Pelton Tollway, a capital asset currently being reported by the State in the Tollway Authority enterprise fund at a carrying amount of \$1 billion. The SDOT receives an up-front payment of \$3 billion from the MTA, in return for which the MTA receives the right to operate the tollway and receive and retain toll revenues for a period of 75 years. Upon receipt, SDOT transferred the up-front payment from the Tollway Authority enterprise fund to the State's general fund. The arrangement meets all criteria in paragraph 6 of this Statement to qualify as a service concession arrangement. The MTA is not a component unit in the State's financial reporting entity.

##### ***Accounting at commencement of the PPP term:***

1. The State should continue to report the tollway as a capital asset.
2. The State should recognize a deferred inflow of resources and a transfer-out in the Tollway Authority enterprise fund in the amount of \$3 billion for the up-front payment received from the MTA.
3. The MTA should recognize an intangible right-to-use asset in the amount of \$3 billion, the amount paid to the SDOT for access to the tollway.

## **Illustrative Disclosures**

(For the State)

### ***Note X: Public-Public Partnership Arrangement for State Tollway***

At the end of the current year, the State, through its State Department of Transportation (SDOT) enters into a public-public partnership arrangement with the Metropolitan Tollway Authority (MTA), under which the MTA will operate, maintain, and retain tolls from the Pelton Tollway for the next 75 years. The SDOT received from the MTA a lump-sum payment of \$3 billion in the Tollway Authority enterprise fund and transferred the amount to the general fund. The Tollway Authority enterprise fund continues to report the tollway as a capital asset with a carrying amount of \$1 billion at year-end and reports a deferred inflow of resources in the Tollway Authority enterprise fund in the amount of \$3 billion at year-end pursuant to the public-public partnership arrangement.

(For the MTA)

### ***Note X: Public-Public Partnership Arrangement for State Tollway***

At the end of the current year, the MTA enters into a public-public partnership arrangement with the State Department of Transportation (SDOT), under which the MTA will operate, collect, and retain tolls from the Pelton Tollway for the next 75 years. The MTA paid the SDOT a lump-sum payment of \$3 billion and is required to operate and maintain the tollway in accordance with the State Tollway Concession Contract. The MTA has recognized an intangible right-to-use asset in the amount of \$3 billion at year-end pursuant to the public-public partnership arrangement.

#### ***Accounting in future years:***

1. The State should continue to apply existing capital asset guidance, including depreciation, if applicable, to the tollway. If the State elects to use the straight-line method, it should recognize \$40 million (the up-front payment divided by 75 years) in revenue and reduce the related deferred inflow of resources in the same amount each year of the arrangement.

2. If the MTA elects to use the straight-line method, it should amortize the intangible asset and recognize expense in the amount of \$40 million (the up-front payment divided by 75 years). The MTA also should recognize revenue and expense for tollway operations based on applicable revenue and expense recognition guidance.

The State should continue to provide the disclosures required by paragraphs 35 and 36 of this Statement, as applicable. The MTA should continue to provide the disclosures required by paragraphs 57–59 of this Statement, as applicable.

## **Illustration 2: Public-Public Partnership Arrangement That Meets the Definition of a Service Concession Arrangement to Design, Build, and Operate a New Tunnel**

**Facts and Assumptions:** A State, through its State Department of Transportation (SDOT), the transferor, enters into a public-public partnership arrangement with the Local Tunnel Authority (LTA), an operator, in which the LTA has agreed to design and build a tunnel, the Geisman Tunnel, for SDOT and then operate the tunnel for 40 years. During the term of the arrangement, the LTA is entitled to collect and retain tolls generated by the tunnel. The arrangement meets all criteria in paragraph 6 of this Statement to qualify as a service concession arrangement. The cost to the LTA to construct the tunnel is \$4 billion. The acquisition value of the tunnel when it is placed into service at the end of the current year is \$4.5 billion. The LTA is not a component unit in the State's financial reporting entity.

### ***Accounting at the commencement of the PPP term and when the underlying PPP asset is placed into service:***

1. The State should recognize a \$4.5 billion capital asset for the acquisition value of the tunnel when it is placed into service and a \$4.5 billion deferred inflow of resources.
2. The LTA should recognize an intangible right-to-use asset in the amount of \$4 billion, the cost to design and build the tunnel.

## **Illustrative Disclosures**

(For the State)

### ***Note X: Public-Public Partnership Arrangement for Local Tunnel***

At the end of the current year, construction was completed on the Geisman Tunnel pursuant to a public-public partnership arrangement with the Local Tunnel Authority (LTA), under which the LTA designed, built, and for 40 years will operate the tunnel. The LTA will be entitled to all toll revenues during the 40-year operations period. At the end of the arrangement, operation of the tunnel will be transferred to the SDOT. The State reports the tunnel as a capital asset with a carrying amount of \$4.5 billion at year-end and a related deferred inflow of resources of \$4.5 billion.

(For the LTA)

### ***Note X: Public-Public Partnership Arrangement for Local Tunnel***

At the end of the current year, the LTA concluded construction and placed into service the Geisman Tunnel pursuant to a public-public partnership arrangement with the State Department of Transportation (SDOT), under which the LTA designed, built, financed, and for 40 years will operate the Geisman Tunnel. The LTA will be entitled to all toll revenues during the 40-year operations period. At the end of the arrangement, operation of the tunnel will be transferred to the SDOT. The LTA has recognized an intangible asset for its right to access and operate the tunnel for 40 years in the amount of \$4 billion at year-end pursuant to the public-public partnership arrangement.

#### ***Accounting in future years:***

1. The State should apply existing capital asset guidance, including depreciation, if applicable, to the tunnel. If the State elects to use the straight-line method, it should recognize \$112.5 million in revenue and reduce the related deferred inflow of resources in the same amount each year of the arrangement.

2. If the LTA elects to use the straight-line method of amortization, it should amortize the intangible asset and recognize expense in the amount of \$100 million each year (\$4 billion cost divided by 40 years). The LTA should recognize revenue and expense on tunnel operations based on applicable revenue and expense recognition guidance.

The State should continue to provide the disclosures required by paragraphs 35 and 36 of this Statement, as applicable. The LTA should continue to provide the disclosures required by paragraphs 57–59 of this Statement, as applicable.

### **Illustration 3: Public-Public Partnership Arrangement That Does Not Meet the Definition of a Service Concession Arrangement to Design, Build, and Operate a New Bridge**

**Facts and Assumptions:** A State, through its State Department of Transportation, the transferor, enters into an arrangement during fiscal year 20X1 with the County Bridge Authority (CBA), an operator, to design and build, and for 30 years operate the Balkan Bridge by collecting and retaining toll revenue. In return for transfer of ownership of the bridge at the end of the 30 years, the State conveys to the CBA the right to operate the bridge and to set, collect, and retain toll revenues. Construction of the bridge is 30 percent completed at the end of the current year and will be completed and placed into service at the end of fiscal year 20X2. The cost of construction of the bridge for the CBA is \$1.2 billion, and the bridge's expected useful life is 40 years. The CBA's estimated carrying value of the bridge at the end of the arrangement is \$300 million ( $\$1.2 \text{ billion} \times 10 \text{ years of remaining service} / 40 \text{ years expected useful life}$ ). The arrangement does not meet the criteria of a service concession arrangement in paragraph 6 of this Statement because the CBA has the authority to set the prices for tolls. The CBA is not a component unit in the State's financial reporting entity.

#### ***Accounting at the commencement of the PPP term:***

1. The State should not recognize any amounts as the bridge has not yet been placed into service.
2. The CBA should recognize a \$360 million capital asset related to construction in progress on the bridge.

## **Illustrative Disclosures at the Commencement of the PPP Term**

(For the State)

### ***Note X: Public-Public Partnership Arrangement for State Bridge***

During fiscal year 20X1, the State, through its State Department of Transportation, entered into an agreement with the County Bridge Authority (CBA), under which the CBA will design, build, and operate the Balkan Bridge for 30 years. The CBA will set, collect, and retain tolls during this period.

(For the CBA)

### ***Note X: Public-Public Partnership Arrangement for State Bridge***

During fiscal year 20X1, the CBA entered into an agreement with the State Department of Transportation, under which the CBA will design, build, and operate the Balkan Bridge for 30 years. The CBA will set, collect, and retain tolls during this period. The CBA has recognized an asset for construction-in-progress related to the Balkan Bridge of \$360 million at the end of the current year. At June 30, 20X1, the construction of the Balkan Bridge was 30 percent completed.

#### ***Accounting when the underlying PPP asset is placed into service:***

1. The State should recognize a receivable in the amount of \$300 million for the CBA's estimated carrying value of the bridge at the end of the arrangement and a \$300 million deferred inflow of resources.
2. The CBA should recognize the bridge as a capital asset in the amount of \$1.2 billion. The CBA also should recognize a liability of \$300 million for the estimated carrying value of the bridge at the end of the arrangement and a \$300 million deferred outflow of resources.

## **Illustrative Disclosures When the Underlying PPP Asset Is Placed into Service**

(For the State)

### ***Note X: Public-Public Partnership Arrangement for State Bridge***

During fiscal year 20X1, the State, through its State Department of Transportation, entered into an agreement with the County Bridge Authority (CBA), under which the CBA will design, build, and operate the Balkan Bridge for 30 years. The CBA will set, collect, and retain tolls during this period. At the end of fiscal year 20X2, the bridge was placed into service. The State has recognized a receivable and a deferred inflow of resources in the amount of \$300 million at June 30, 20X2, for the transfer of the bridge from the CBA at the end of the arrangement.

(For the CBA)

### ***Note X: Public-Public Partnership Arrangement for State Bridge***

During fiscal year 20X1, the CBA entered into an agreement with the State Department of Transportation, under which the CBA will design, build, and operate the Balkan Bridge for 30 years. The CBA will set, collect, and retain tolls during this period. As of the end of fiscal year 20X2, the bridge was placed into service. The CBA has recognized a capital asset in the amount of \$1.2 billion at June 30, 20X2, for the bridge. The CBA also has recognized a liability and a deferred outflow of resources in the amount of \$300 million at June 30, 20X2, for the transfer of the bridge to the State at the end of the arrangement.

#### ***Accounting in future years:***

1. If the State elects the straight-line method, it should recognize revenue in the amount of \$10 million each year with a corresponding reduction in the deferred inflow of resources. At the end of the arrangement, the State should eliminate its receivable related to the arrangement and recognize a capital asset for the CBA's estimated carrying value of the bridge.

2. The CBA would follow financial reporting requirements applicable to the bridge, including depreciation and impairment. If the CBA elects the straight-line method, it also should recognize expense in the amount of \$10 million each year with a corresponding reduction in the deferred outflow of resources. At the end of the arrangement, the CBA should eliminate its liability related to the arrangement with the transfer of the bridge to the State. The CBA should recognize revenue and expense on bridge operations based on applicable revenue and expense recognition guidance.

The State should continue to provide the disclosures required by paragraphs 35 and 36 of this Statement, as applicable. The CBA should continue to provide the disclosures required by paragraphs 57–59 of this Statement, as applicable.

## **Illustration 4: Availability Payment Arrangements to Design, Build, Finance, and Operate a Bridge**

**Facts and Assumptions:** On January 2, 20X0, a State, through its State Department of Transportation, the transferor, enters into an arrangement with a corporation to design, build, and finance the construction of the Spare Bridge. The corporation will collect all tolls for the bridge for 40 years and remit them to the State. The State will remit to the corporation \$10 million at the start of the project, \$10 million on the date the bridge is placed into service, and \$2 million annually for each of the 40 years the corporation will operate the bridge to compensate the corporation for designing, building, and financing the bridge, beginning in the period in which the bridge is placed into service. The State also will remit \$100,000 per month during the 40 years to compensate the corporation for collecting the tolls. In addition, if the bridge is placed into service prior to December 31, 20X1, the State will remit an additional \$1 million for each month prior to December 31, 20X1, the bridge is in service to compensate the corporation for operating the bridge and as an incentive to complete the project sooner.

The bridge is placed into service on October 31, 20X1. After payment of the \$10 million for completion of the project and \$2 million for completing the project 2 months early, the present value of future payments to the corporation are \$40 million.

***Accounting at the commencement of the APA:***

The State should report an asset for the initial payment of \$10 million to the corporation.

***Accounting in future years:***

On the date the Spare bridge is placed into service, the State should recognize a capital asset for the bridge in the amount of \$61.8 million (\$10 million at the start of the project, \$10 million at the date the bridge is placed into service, \$40 million present value of future payments, and \$1.8 million for 2 months of payments of \$1 million for the bridge opening early, less the \$100,000 portion of those payments for collecting tolls) and should apply existing capital asset guidance, including depreciation, to the bridge. The State also should recognize a liability in the amount of \$40 million to the corporation for the present value of the future annual payments to the corporation. The State also should recognize an expense for \$100,000 per month for payments related to toll collection.



## Appendix D

### CODIFICATION INSTRUCTIONS

#### ***Codification of Governmental Accounting and Financial Reporting Standards—June 2022 Update***

D1. The instructions that follow update the December 31, 2019 *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), as amended by Statement No. 91, *Conduit Debt Obligations*, for the provisions of this Statement. Statement 91 is effective for reporting periods beginning after December 15, 2020. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

\* \* \*

[Update cross-references throughout.]

\* \* \*

#### **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND LEGAL COMPLIANCE**

#### **SECTION 1200**

.115 [Insert new subparagraph (d) as follows; renumber subsequent subparagraph.] Section P90, “Public-Private and Public-Public Partnerships,” paragraph .108, discusses the effects of legal restrictions on GAAP for transactions related to public-private and public-public partnership arrangements.

\* \* \*

#### **REPORTING CAPITAL ASSETS**

#### **SECTION 1400**

Sources: [Add GASBS 94.]

See also: [Remove Section S30, “Service Concession Arrangements;” add Section P90, “Public-Private and Public-Public Partnerships.”]

.123 [Insert new subparagraph (c) as follows:] Assets of an operator resulting from public-private and public-public partnerships, which are addressed in Section P90. [GASBS 51, ¶3, as amended by GASBS 69, ¶39, GASBS 72, ¶64, GASBS 87, ¶20, and GASBS 94, ¶37–¶39]

[Revise paragraph .143, including heading, as follows:]

### **Capital Assets Obtained through Public-Private and Public-Public Partnerships**

.143 Paragraphs .110–.112, .114–.117, .133–.135, and .145–.148 of Section P90 provide guidance for capital assets that are obtained through public-private partnerships that either (a) meet the definition of a service concession arrangement or (b) are not within the scope of Section L20.

[Revise footnote 27 as follows:] Paragraph .131 of Section L20 and paragraph .148 of Section P90 provide additional guidance for assessing impairment of lease assets and intangible right-to-use assets of an operator in a public-private or public-public partnership, respectively. [GASBS 42, ¶11, as amended by GASBS 87, ¶34 and GASBS 94, ¶52]

[Revise footnote 28 as follows:] Paragraph .131 of Section L20 and paragraph .148 of Section P90 provide additional guidance for assessing impairment of lease assets and intangible right-to-use assets of an operator in a public-private or public-public partnership, respectively. [GASBS 42, ¶12, as amended by GASBS 87, ¶34 and GASBS 94, ¶52]

[Revise heading .724 as follows:]

### **.724 Capital Assets Obtained through Public-Private and Public-Public Partnerships**

\* \* \*

## REPORTING LIABILITIES

## SECTION 1500

.129 [Revise the third sentence as follows:] For this purpose, debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, an operator's liability for installment payments associated with a public-private or public-public partnership, or accounts payable. [GASBS 38, ¶10, as amended by GASBS 88, ¶4 and ¶6 and GASBS 94, ¶58]

\* \* \*

## NOTES TO FINANCIAL STATEMENTS

## SECTION 2300

Sources: [Add GASBS 94.]

.107 [Revise subparagraph (ggg) as follows:] Public-private or public-public partnerships that either (a) meet the definition of a service concession arrangement or (b) are not within the scope of Section L20. (See Section P90, "Public-Private and Public-Public Partnerships," paragraphs .131, .132, and .153–.155.) [In the sources, add GASBS 94, ¶35, ¶36, and ¶57–¶59.]

\* \* \*

[Insert new Section A90, "Availability Payment Arrangements," as follows:]

## AVAILABILITY PAYMENT ARRANGEMENTS

## SECTION A90

Source: GASBS 94

See also: Section 1400, "Reporting Capital Assets"

### Scope and Applicability of This Section

.101 This section establishes standards of accounting and financial reporting for availability payment arrangements (APAs). The requirements of this section apply to financial statements of all state and local governments that are prepared using the economic resources measurement focus. [GASBS 94, ¶13 and ¶8]

.102 [GASBS 94, ¶7; revise footnote as follows:]

<sup>1</sup>[Insert text of GASBS 94, fn3.] [GASBS 94, fn6]

.103–.110 [GASBS 94, ¶76–¶83, including headings]

\* \* \*

## **CONDUIT DEBT OBLIGATIONS**

## **SECTION C65**

.116 [Revise the second and third sentences as follows:] Some arrangements described in paragraph .115 meet the definition of a service concession arrangement (SCA) in paragraph .103 of Section P90, “Public-Private and Public-Public Partnerships.” If an arrangement associated with conduit debt obligations meets the definition of an SCA, an issuer should account for that arrangement as an SCA by applying the accounting and financial reporting requirements in paragraphs .107–.170 of Section P90 rather than paragraphs .117–.120 of this section. [GASBS 91, ¶19, as amended by GASBS 94, ¶5–¶6 and ¶8]

\* \* \*

## **DEBT EXTINGUISHMENTS AND TROUBLED DEBT RESTRUCTURING**

## **SECTION D20**

.136 [Revise the first sentence as follows:] For purposes of applying paragraphs .129–.165, troubled debt restructurings do not include changes in lease agreements (the accounting is prescribed by Section L20, “Leases”), public-public partnership arrangements (the accounting is prescribed by Section P90, “Public-Private and Public-Public Partnerships”), or employment-related agreements (for example, pension or other postemployment benefit plans and deferred compensation contracts). [GASBS 62, ¶135, as amended by GASBS 87, ¶3–¶8 and ¶10–¶91 and GASBS 94, ¶68–¶75]

\* \* \*

## **LEASES**

## **SECTION L20**

[Add the following:]

See also: Section P90, “Public-Private and Public-Public Partnerships”

.106 [Revise subparagraph (d) as follows:] Public-private and public-public partnerships if (1) existing assets of the transferor are not the only underlying PPP assets, (2) improvements are required to be made by the operator to those existing assets of the transferor as part of the PPP arrangement, or (3) the PPP meets the definition of a service concession arrangement in paragraph .103 of Section P90, “Public-Private and Public-Public Partnerships.” [GASBS 87, ¶8, as amended by GASBS 94, ¶9]

\* \* \*

## **SERVICE CONCESSION ARRANGEMENTS**

## **SECTION S30**

[Delete the section.]

\* \* \*

[Insert new Section P90, “Public-Private and Public-Public Partnerships,” as follows:]

## **PUBLIC-PRIVATE AND PUBLIC-PUBLIC PARTNERSHIPS SECTION P90**

Source: GASBS 94

See also: Section 1400, “Reporting Capital Assets”  
Section 2300, “Notes to Financial Statements”  
Section L20, “Leases”

## **Scope and Applicability of This Section**

.101 [GASBS 94, ¶3]

.102–.103 [GASBS 94, ¶5–¶6, including footnotes]

.104 [GASBS 94, ¶8; omit subparagraph (g).]

.105–.170 [GASBS 94, ¶9–¶75, including headings and footnotes]

\* \* \*

## **BANKRUPTCIES**

## **SECTION Bn5**

Sources: [Add GASBS 94.]

[In heading before .107 replace *Leases* with *Leases and Public-Public Partnership Arrangements*. Replace paragraph .107 with the following:]

.107 If the provisions of a lease or a public-public partnership arrangement are modified in a way that changes the amount of the remaining lease liability or the operator's liability for installment payments or liability for the underlying public-public partnership asset, respectively, and the modification either (a) does not give rise to a new agreement or (b) does give rise to a new agreement but such agreement also meets the definition of a lease or a public-public partnership arrangement, respectively, then the present balances of the lease asset and the lease liability, or the intangible right-to-use asset and the liability for installment payments or liability for the underlying public-public partnership asset, respectively, should be adjusted by an amount equal to the difference between the lease liability or liability for installment payments or liability for the underlying public-public partnership asset, respectively, under the revised or new agreement and the carrying amount of the pre-petition lease liability or liability for installment payments or for the underlying public-public partnership asset, respectively. The lease liability or liability for installment payments or for the underlying public-public partnership asset under the revised or new agreement should be computed using the rate of interest used to record the lease or liability for installment payments or liability for the underlying public-public partnership asset initially. A termination of a lease or a public-public partnership arrangement should be accounted for by removing the lease asset and lease liability, or the intangible right-to-use asset and liability for installment payments or liability

for the underlying public-public partnership asset, respectively, with a gain or loss recognized for the difference. [GASBS 58, ¶8, as amended by GASBS 87, ¶73, ¶74, and ¶78; GASBS 94, ¶71, ¶72, and ¶73]

\* \* \*

## ***Comprehensive Implementation Guide—June 2022 Update***

D2. The instructions that follow update the December 31, 2019 *Comprehensive Implementation Guide* for the provisions of this Statement.

\* \* \*

[Replace Questions Z.60.1 and Z.60.2 with the following:]

Z.60.1. [Question number not used]

Z.60.2. [Question number not used]

