North Carolina
Office of the State Controller

Financial Reporting Update

GASB 94 Effective for Fiscal Year 2023

March 10, 2022

In March 2020, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94). Public-private and public-public partnerships (PPPs), include a wide variety of arrangements between a government and another party to provide public services. GASB 94 was issued to establish the definitions for PPPs and availability payment arrangements (APAs) and provide uniform guidance for governments to report assets and liabilities related to PPPs on a consistent basis and disclose important information about PPP transactions. Consequently, GASB 94 is expected to enhance understandability, reliability, relevance and consistency for PPP accounting and reporting.

Prior to the issuance of GASB 94, GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* (GASB 60) was the only guidance available for PPP arrangements. GASB 60 only addresses Service Concession Arrangements (SCAs), which are a type of PPP arrangement. While SCAs have been included in the new guidance and SCA criteria has not changed, GASB 94 defines PPP arrangements in broader terms to include arrangements that may not meet the specific requirements for an SCA as established in GASB 60.

In addition, because SCAs share several common elements with lease arrangements, GASB recognized the need to bring SCA accounting guidance in line with the new measurement and recognition principles found in GASB Statement No. 87, *Leases, as amended* (GASB 87). As a result of the significant changes required to make SCA accounting guidance consistent with GASB 87, GASB 94 replaces GASB 60 for SCA accounting and includes guidance for other PPP arrangements that mirror the new lease accounting standards.

GASB 94 supersedes Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements; Implementation Guide 2015-1,* Question Z.60.1; and Implementation Guide No. 2016-1, *Implementation Guidance Update –2016*, Question 4.74. This Statement also amends several other Statements.

GASB 94 is effective for all state and local governments for fiscal years beginning after June 15, 2022 and should be applied retroactively for all prior fiscal years presented. Beginning balances as of July 1, 2022, will require restatement for captions that are impacted by the new guidance and measured using the facts and circumstances that existed as of this date.

Note: The provisions of GASB 94 need not be applied to immaterial items.

PPP Definition

GASB 94 defines a PPP as *"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." 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.*

GASB 94 did not change the definition or criteria for Service Concession Arrangements as established in GASB 60. SCAs are included in GASB 94's broader definition of a PPP but continue to include specific criteria not found in all PPPs. For an arrangement to qualify as an SCA, all of the following must be true: (1) 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; (2) the operator collects and is compensated by fees from third parties; (3) the transferor determines or has the ability to modify or approve which services the operator is required to provide and to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (4) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. Arrangements that qualify as SCAs include provisions that give the transferor more control over the public services contracted to be provided than a PPP that does not meet the criteria for an SCA.

APA Definition

Availability payment arrangements (APAs) are not PPPs but have similarities. GASB 94 defines an APA as *"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 transaction."*

In contrast to a PPP, in an APA the operator is providing an asset or performing services on behalf of the government, but the government retains the risk and responsibility for providing the public service. In a PPP arrangement the government is transferring the obligation to provide certain public services to the operator.

Scope

Some PPP arrangements meet the definition of a lease according to GASB 87. If a PPP meets the definition of a lease, the arrangement should apply the accounting and financial reporting guidance in GASB 87 instead of GASB 94 if <u>all</u> the following conditions are met:

a) The underlying PPP asset(s) represent existing assets of the transferor (the operator will not purchase or construct the underlying PPP asset).
b) Improvements are not required to be made by the operator to the existing assets as part of the PPP arrangement.
c) The PPP does not meet the definition of an SCA.

All other PPP arrangements will apply the accounting and financial reporting guidance found in GASB 94, which includes guidance for both transferor and operators that are governmental entities. GASB 94 does not provide guidance for operators that are private entities.

PPP Term

GASB 94 mirrors the new lease accounting standards found in GASB 87 related to term. GASB 94 defines PPP term as "the period during which an operator has a noncancellable right to use the underlying PPP asset (referred to as the noncancellable period)." In addition to the noncancellable period, various other options may be present in the agreement. If it is reasonably certain the operator or the transferor will exercise an option to extend or not exercise an option to terminate based on all relevant factors, the option period will be included in the calculation of the PPP term. Periods for which both the operator and transferor have an option to terminate the PPP without the permission from the other party (or if both parties must agree to extend) are considered cancellable periods and should be excluded from the PPP term.

Transferor Governments – General Reporting Requirements for PPPs

Financial statements prepared using the economic resources measurement focus (proprietary funds using full accrual accounting, including component units such as universities and community colleges)

For all PPP arrangements, if the underlying PPP asset is an existing asset owned by the transferor, the transferor will continue to recognize the underlying PPP asset at the current carrying value of the asset at the commencement of the PPP term. The transferor will also recognize a receivable for the present value of any installment payments to be received from the operator, along with an offsetting deferred inflow of resources for receivables and/or upfront payments received at or before the commencement of the PPP term. Transferors will recognize an asset for any improvements made by the operator at acquisition value when the asset is placed into service, along with a deferred inflow of resources for an equal amount.

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 transferor will recognize an asset for the purchased or constructed underlying PPP asset at acquisition value when the asset is placed into service, along with a deferred inflow of resources for the value of the PPP asset placed into service. When the PPP term begins, the transferor will also recognize a receivable for the present value of any installment payments to be received from the operator, along with an offsetting deferred inflow of resources for receivables and/or upfront payments received at or before the commencement of the PPP term.

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 transferor will recognize a receivable for "a right-to-receive the underlying PPP asset" based on the operator's estimated carrying value of the asset as of the date the asset is to be transferred, along with a deferred inflow of resources for an equal amount when the asset is placed in service. The transferor will also recognize a receivable for the present value of any installment payments to be received from the operator, along with an offsetting deferred inflow of resources for receivables and/or upfront payments received at or before the commencement of the PPP term when the asset is placed in service.

Transferors should initially measure a 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. The receivable measurement should also include:

a) Fixed payments,
b) Variable payments that depend on an index or a rate,
c) Variable payments that are fixed in substance, and
d) Residual value guarantee payments that are fixed in substance.

A transferor should initially recognize a deferred inflow of resources for the following, when the related assets are recognized:

a) The initial measurement of a receivable for any installment payments,
b) PPP payments received from the operator at or before the commencement of the PPP term,
c) The initial measurement for any underlying PPP asset that is purchased or constructed by the operator,
d) The initial measurement for any improvements made by the operator when they are placed into service, and/or
e) The initial measurement of a receivable for a right-to-receive an underlying PPP asset based on the operator's estimated carrying value on the date of transfer.

Following the year of implementation, transferors will amortize the deferred inflow of resources and recognize an inflow of resources (e.g., revenues) in a systematic and rational manner over the PPP term.

Similarly, in subsequent financial reporting periods, a transferor should calculate the amortization on the discount for a receivable recorded at the present value of future installment payments and recognize the amortized discount as an inflow of resources (e.g., interest revenue) for the current period. Any PPP payments received should first be allocated to the accrued interest receivable and then to the receivable for installment payments.

Any initial direct costs incurred by the transferor should be expensed in the period paid (e.g., document processing costs, evaluation costs and negotiating costs).

Financial statements prepared using the current financial resources measurement focus (modified accrual)

Transferor governments that prepare financial statements using the current financial resources measurement focus (governmental funds using modified accrual), should recognize a receivable for installments payments and a deferred inflow of resources to account for a PPP. Because capital assets are not recorded in the balance sheet for governmental funds, the underlying PPP asset will only be recognized in the statement of net position for the government-wide presentation (full accrual accounting). The transferor will measure the deferred inflow of resources at the initial value of the receivable for installment payments (according to the requirements for measuring a PPP receivable for installment payments), plus the amount of any payments received at or before the commencement of the PPP term. Following the year of implementation, transferors will amortize the deferred inflow of resources and recognize as inflows (e.g., revenue), if available, in a systematic and rational manner of the PPP term.

Notes to Financial Statements – Transferors

Transferors should disclose the following for their PPP activities (which may be grouped for disclosure purposes):

a) A general description of its PPP arrangements, including the status of construction 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 for assets and deferred inflows of resources that are recognized in the transferor's financial statements related to PPP activity,
c) The discount rate(s) applied to the measurement of receivables recognized related to the present value of installment payments, if any,
d) The amount of any inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of a receivable for installment payments, including inflows of resources related to residual value guarantees and termination penalties, and
e) The nature and extent of the rights retained by the transferor or granted to the operator under the PPP arrangements.

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

Operators (Governmental Entities) – General Accounting and Financial Reporting for PPPs

Financial statements prepared using the economic resources measurement focus (proprietary funds using full accrual accounting)

For all PPP arrangements, if the underlying PPP asset is an existing asset owned by the transferor, the operator will recognize an intangible right-to-use asset at the beginning of the term since the underlying PPP asset will continue to be reported in the transferor's financial statements. The operator will also record a liability for any installment payments to be made as part of the arrangement initially measured at present value when the PPP term begins.

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 operator will also record an intangible right-to-use asset when the PPP term begins, along with a liability for any installment payments required as part of the PPP initially measured at present value.

However, 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 operator should recognize the underlying PPP asset in their own financial statements until the underlying PPP asset is transferred to the transferor (typically at the end of the arrangement). The operator should apply capital asset policies, including depreciation and impairment policies, to the asset when the asset is placed into service and continue until the asset is transferred. When the asset is placed into service, the operator will recognize a liability for the asset to be transferred based on the operator's estimated carrying value of the asset at the anticipated transfer date, a liability for any installment payments initially measured at present value, and a deferred outflow of resources for the underlying PPP asset to be transferred to the transferor.

If the operator is required to make installment payments as part of the PPP arrangement, the operator should initially measure the liability for the present value of the PPP payments expected to be made during the PPP term. The agreement may include a variety of variables related to the PPP payments that may impact the liability measurement including:

a) Fixed payments,
b) Variable payments that depend on an index or rate,
c) Variable payments that are fixed in substance,
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, and/or
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.

In subsequent 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 (e.g., interest expense) in the current period. Any PPP payments made should be first allocated to the accrued interest liability and then to the liability for installment payments.

An operator should measure the right-to-use asset as the sum of the following when the underlying PPP asset is placed into service:

a) The initial measurement (present value) for the liability for any installment payments,
b) PPP payments made to the transferor at or before the commencement of the PPP term,
c) The cost of the purchased or constructed underlying PPP asset (only if the PPP meets the definition of an SCA),
d) The cost of improvements to an existing underlying PPP asset, and/or
e) Any initial direct costs that are ancillary charges necessary to place the right-to-use asset into service.

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. As the right-to-use asset is amortized, it should be reported as an outflow of resources (e.g., amortization expense).

A deferred outflow of resources should be recognized by an operator for the amount of the liability recorded to transfer the underlying PPP asset to the transferor at the end of the PPP term. In subsequent periods, the operator should amortize the deferred outflow of resources as outflows of resources (e.g., expense) in a systematic and rational manner over the remaining PPP term.

Financial statements prepared using the current financial resources measurement focus (modified accrual)

If a governmental operator expects to use general government resources (governmental funds) to pay PPP obligations, the PPP should be accounted for and reported on a basis consistent with governmental fund accounting principles.

Expenditures and other financing sources should be reported in the period the PPP is initially recognized and measured at present value. 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

Operators should disclose the following information related to their PPP activities (which may be grouped for disclosure purposes):

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, and/or
g) The components of any loss associated with an impairment (the impairment loss and any related change in the liability).

For disclosure purposes, an operator's liability for installment payments is not subject to the disclosure requirements of Statement 88, *Certain Disclosures Related to debt, including Direct Borrowings and Direct Placements.*

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.

Multiple component PPPs

A PPP arrangement may include multiple components that include both PPP components and non-PPP components, or a PPP may contain multiple underlying PPP assets.

If a transferor or an operator enters in 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 components should be accounted for as separate arrangements if possible.

If a PPP involves multiple underlying PPP assets and those assets have different PPP terms or represent different major classes of assets, the transferor and the operator should account for each underlying PPP asset as a separate PPP component.

To allocate the contract price, the transferor and operator should use stated contract prices for individual components if available and the prices appear reasonable. If there are no stated prices or the stated prices are not reasonable, professional judgement should be used to determine the best estimate. If separate prices cannot be reasonably determined, then the multiple components of the PPP should be accounted for as a single PPP.

PPP Modifications and Terminations

Provisions of a PPP may be amended during the term of the arrangement. These amendments are considered modifications to the original PPP agreement. Examples include but are not limited to:

- Price changes
- Term changes (lengthening or shortening)
- Adding or removing an underlying PPP asset

- Index or rate change that impact variable payments

Amendments should be considered modifications unless the operator's right to use the underlying PPP asset decreases, in which case the amendment would be treated as a partial or full PPP termination. On the other hand, if an operator or transferor exercises an option to extend or terminate the PPP, the amendment will trigger remeasurement for the applicable components of the PPP.

Modifications

If an amendment results in a modification of the PPP arrangement, the amendment should be accounted for as a <u>separate</u> PPP by both the transferor and operator if, (1) the PPP modification gives the operator an additional underlying PPP asset not included in the original arrangement; and (2) the increase in PPP payments for the additional underlying PPP asset(s) appears to be reasonable based on the terms of the amendment and based on other observable information (e.g. using readily available observable stand-alone prices).

If a modification cannot be reported as a separate PPP, transferors and operators will need to remeasure the applicable components of the PPP arrangement.

<u>Transferors</u> should remeasure the receivable for installment payments, if applicable and/or the receivable for the right-to-receive the underlying PPP asset. The deferred inflow of resources related to the receivables should be adjusted by the difference between the remeasured receivables and the receivables prior to the PPP modification. If a portion of the change relates to payments for the current period, that portion should be recognized as an inflow of resources (e.g., revenue) or an outflow of resources (e.g., expense) for the current period.

<u>Operators</u> should remeasure the liability for installment payments, if applicable and/or the liability to transfer the underlying PPP asset at the end of the arrangement. The right-to-use asset should be adjusted by the difference between the remeasured liability for installment payments and the liability for installment payments prior to the modification. If the change reduces the carrying value of the right-to-use asset to zero, any remaining amount should be recognized in the resource flow statement (e.g., a gain). A deferred outflow of resources for the liability to transfer the asset at a later date should be adjusted by the difference between the remeasured liability for the underlying PPP asset and the liability prior to the modification.

Note: For PPP modifications resulting from a debt refunding, please see GASB 94, paragraph 70 for transferor guidance and paragraph 72 for operator guidance.

Terminations

When an amendment to a PPP arrangement results in a decrease in the operator's right to use the underlying PPP asset (e.g., the PPP term is shortened or the number of underlying PPP assets is reduced), the amendment should be accounted for as a partial or full PPP termination. Both transferors and operators should recognize a gain or loss when there is a partial or full termination. See GASB 94 paragraph 74 for the gain or loss calculation for transferors and paragraph 75 for the gain or loss calculation for operators.

APAs

Under GASB 94, 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 transaction." In an APA, a government procures a capital asset or service, rather than receiving compensation to allow another entity to provide public services, as in a PPP. Governments engaged in APA contracts with multiple components should recognize each component as a separate arrangement. 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. An APA related to operating and maintaining a nonfinancial asset should be expensed in the period to which the payments relate. While some APAs may be complex, the Board takes the position that APA arrangements represent the purchase of an asset or the payment for services. Therefore, GASB 94 provides that APAs 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.

Effective Date

GASB 94 is required to be implemented for fiscal year end June 30, 2023. This statement should be applied retroactively by restating the July 1, 2022, beginning net position and statement captions impacted by the implementation as applicable. PPPs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year for the year of implementation.

For additional information please refer to the official GASB website to access the Public-Private and Public-Public Partnerships and Availability Payment Arrangements standard in its entirety. [GASB Statement No. 94]

Thank you for your time and attention to this important change. Questions regarding this specific update should be directed to Joanie Saucier at Joan.Saucier@osc.nc.gov.

Appendix A – GASB Standard 94:

PPP and APA Arrangement Examples

I. APA Arrangement:

Details of arrangement:

The State DOT (SDOT) has entered into an arrangement with a corporation (ABC Engineering) to design, build and finance construction of a bridge. Once the bridge is placed into service, ABC Engineering will operate the bridge for 20 years. At the beginning of the arrangement, SDOT pays ABC Engineering $10 million, and when the bridge is placed into service, SDOT will pay the ABC Engineering another $10 million. The SDOT will also pay ABC Engineering $1 million for each of the 20 years during the term of the agreement, which also represents payment for the design and construction of the bridge. (For the sake of this example the present value or PV of the future $1 million payments for 20 years is $25 million when bridge is placed into service). The SDOT will also compensate ABC Engineering $150,000 each month (or $1.8 million each year) to operate the bridge, collect the tolls on behalf of SDOT and remit the tolls to SDOT as collected.

GASB 94 requires that an APA arrangement that has multiple components account for each component separately. There are 2 components in this example: 1) SDOT has contracted with ABC Engineering to design, build and finance the bridge; and 2) SDOT is compensating the corporation for the operation of the bridge.

- The design, construction, or financing of the bridge is one component and should be reported as a financed purchase of an asset by the State.

  a) The $10 million upfront payment will be reported as an asset by SDOT at the beginning of the agreement when the payment is received.

  b) When the bridge is placed into service SDOT will record an infrastructure asset for the bridge in the amount of $45 million on the State's financial statements (the sum of: $10 million upfront payment, $10 million for when the asset is placed into service, and $25 million, the PV of the future $1 million payments for 20 years. The SDOT will also apply existing capital asset policies to the bridge (e.g., depreciation).

  c) The SDOT will also recognize a $25 million liability when the bridge is placed into service for the PV of the future payments of $1 million for 20 years.

- The $150,000 per month (or $1.8 million per year) for the operation of the bridge represents compensation for a service. The SDOT will recognize the payments for operating the bridge as outflows of resources (or expensed) in the period the payments are made.

II. Public-Public and Public Private Partnerships (PPPs)

A. Service Concession Arrangement (SCA)

Details of arrangement:

1. The State DOT - SDOT (Transferor) has entered into an arrangement for 50 years with the Tollway Authority (operator - another governmental entity), to operate an existing toll road currently being reported as infrastructure on the SDOT's enterprise fund financial statements with a carrying value of $1 billion.

2. The SDOT receives an up-front payment of $2 billion from the Tollway Authority (not a component unit of the State) for the right to operate the toll road and collect and retain the revenues for 50 years.

   Comment: One of the requirements of an SCA is that the operator is compensated from a third party. In this case, the toll road patrons are third parties, so the SCA requirement that an operator is paid from third parties is met.

3. The SDOT has established the toll amounts to be charged by vehicle type and section of the road. SDOT also has retained the right to increase or decrease the tolls during the 50-year period.

   Comment: Because the Transferor (SDOT) has the right to determine the type of services (toll road access), the amount of the fees (tolls charged) and who the fees apply to (type of vehicle), the SCA requirement that the Transferor retain control of the type of services provided, the fees charged and who will receive the services is met. If this level of control is removed, it would no longer qualify as an SCA but is a PPP under the broader definition of GASB 94.

4. At the end of the 50 years, the SDOT will take over the operation of the toll road and be responsible for collecting and reporting the toll revenues.

   Comment: In an SCA, the Transferor has a significant residual interest in the underlying PPP asset, in this case, the toll road. This SCA requirement is met.

At the commencement of the agreement:

Transferor – SDOT:

a) Continues to report the toll road (the underlying PPP/SCA asset) on their financial statements and apply applicable capital asset accounting policies (e.g., depreciation and asset impairment policies).

b) Records a $2 billion Deferred Inflow of Resources for the upfront payment received from the Tollway Authority for the Right to Operate the toll road and collect and retain toll revenues for 50 years.

c) If using straight-line method, SDOT will amortize the Deferred Inflow of Resources in the amount of $40 million each year ($2 billion/50 years) and recognize $40 million in revenue inflows each year.

Operator – Tollway Authority:

a) Records a $2 billion Intangible Right to Use or Operate Asset, which is the upfront payment made to SDOT the Transferor.

   Note: If the agreement also required future installment payments, the PV of the future payments would also be included in the value of the Intangible Asset for the Right to Use or Operate, and a Liability for the PV of the future payments would also be recorded.

b) The Tollway Authority will amortize the Intangible Right to Use or Operate Asset, over the term of the agreement or the life of the asset, whichever is shorter. In this example we will use the 50-year term of the agreement. If the Tollway Authority uses a straight-line method, they will amortize $40 million ($2 billion/50 years) and recognize $40 million in outflows (amortization expense) each year.

B. Public-Private Partnership (not an SCA)

<u>Details of arrangement:</u>

1. A University (transferor) has entered into an agreement with a third-party developer (ABC Co.), the operator, to design, build and then operate and receive revenues from a student facility for 20 years upon completion of the facility. ABC Co. will transfer ownership of the student facility to the University at the end of the 20-year term.

2. ABC Co. completes the facility on December 1, 2020 – total costs equal $65 million. ABC Co. estimates that the carrying value will be $32.5 million on December 1, 2040 (date ABC Co. will transfer ownership of the student facility to the University).

3. ABC Co. (not the University) will be responsible for setting policy related to what students receive certain services and what rates to charge during the 20-year period they operate the facility.

   Comment: If the University retained the right to establish fees and determine who is provided what services, this arrangement would qualify as an SCA.

Transferor (University):

1. When the underlying PPP asset is placed into service, the University should record a Receivable for the Right to Receive the Facility at the end of the 20-year term in the amount of $32.5 million (ABC Co., the operator's, estimated carrying value on the date of transfer).

   Comment: A receivable for the "Right to Receive the Facility" is recorded for the estimated carrying value of the operator on the expected date of transfer because the asset is not an existing asset of the University (transferor) and because the arrangement does not qualify as an SCA. If the arrangement met the definition of an SCA, or if the underlying PPP asset was an existing asset of the University, the University would report the underlying PPP asset instead of a receivable on their financial statements.

2. The University will also record a Deferred Inflow in the amount of the Receivable for $32.5 million and amortize it using a systematic and rational method over the 20 year-term. If they use the straight-line method, the University will amortize $1.625 million ($32.5 million/20 years) and recognize revenue inflows of $1.625 million each year.

Operator (ABC Co.) as a private entity is not subject to GASB 94

Variation of Example B: If the operator is another governmental entity instead of a private entity (e.g., County Construction), the operator will report the following:

1. As the student facility is being built, County Construction will record construction in progress for their construction costs. When the student facility is placed into service, County Construction will record the $65 million student facility asset on their own financial statements and apply any applicable capital asset policies to the student facility (e.g., depreciation and capital asset impairments policies).

2. County Construction will also record a Liability when the asset is placed into service in the amount of $32.5 million (County Construction's estimated carrying value for the student facility on the date of transfer) for their obligation to transfer the facility to the University.

3. County construction will also record a Deferred Outflow of Resources in the amount of the liability to transfer the student facility after 20 years. The deferred outflow should be amortized in a systematic and rational manner of the 20-year period.