# Ready for GASB 94, Public-Private Partnerships?

In April 2020, GASB issued Statement 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, to address gaps in existing accounting guidance. As you get ready for adoption, this paper reviews the guidance's key changes and includes several subsequent updates to help with a smooth implementation.

| Effective Date Statement 94 | Reporting periods beginning after June 15, 2022 |
| --- | --- |

## Background

Due to perpetual funding shortages and the increasing need for large infrastructure projects, public-private partnerships (P3) are becoming more prevalent to construct, maintain, and operate costly public services. The most common P3s include roads, bridges, airport terminals, public transit, hospitals, student services at colleges and universities, sports facilities, jails, wastewater treatment, and museums.

Due to the wide variety of transaction structures, existing GASB guidance in Statement 60, Accounting and Financial Reporting for Service Concession Arrangements, and Statement 87, Leases, can be inadequate. Statement 60 was issued in 2010 and is much less comprehensive in its recognition, measurement, and remeasurement provisions than Statement 87 released in 2017. As a result, GASB decided to supersede Statement 60 with Statement 94, which leverages many of the definitions and concepts in Statement 87.

## Scope

As used in this article, a P3 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 an infrastructure or other nonfinancial asset (the underlying P3 asset) for a period of time in an exchange or exchange-like transaction. Some P3s will meet the definition of a service concession arrangement (SCA), which has been retained from current guidance:

- The operator collects and is compensated by fees from third parties.
- 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.
- The transferor is entitled to significant residual interest in the service utility of the underlying P3 asset at the end of the arrangement.

Statement 94 also addresses availability payment arrangements (APA), which are arrangements where a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying infrastructure or other nonfinancial asset for a period of time in an exchange or exchange-like transaction.

**Government (Transferor)**

Contracts with

↓

**Operator (governmental or nongovernmental entity)**

To provide public services by conveying

↓

**Nonfinancial Asset (underlying P3 asset)**

Control of the right to operate or use

For P3s that meet the lease definition, a government would apply Statement 87, if existing assets of the transferor that are not required to be improved by the operator as part of the P3 arrangement are the only underlying P3 assets and the P3 does not meet the SCA definition. Statement 94 provides guidance for all other P3s—those that meet the SCA definition and those that do not meet the lease definition.

| | P3 – GASB 94 | Lease – GASB 87 |
|---|---|---|
| Purpose/use of underlying asset | To provide public services | As specified in the contract |
| Ownership of underlying asset | [unspecified] | Another entity's asset |
| Control conveyed | Right to **operate** or use | Right to use |

## Term

The P3 term is the period during which an operator has a noncancelable right to use an underlying P3 asset and includes an operator's extension and termination options if it is reasonably certain—based on all relevant factors—that the operator will exercise that option. Likewise, the periods covered by a transferor's extension or termination option are included if it is reasonably certain—based on all relevant factors—that the transferor will exercise that option.

Provisions that allow for termination of a P3 due to either payment of all sums due or default on payments are not considered termination options. A fiscal funding or cancellation clause would only affect the P3 term if it is reasonably certain that the clause will be exercised.

At P3 commencement, the operator and transferor should assess all factors relevant to the likelihood of option exercise, which can be based on the contract, underlying asset, market, or government-specific considerations. Statement 94 includes the following examples:

- A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates
- A significant economic disincentive, such as costs to terminate the P3 and sign a new P3 arrangement, *e.g.*, negotiation and relocation costs, abandonment of significant underlying P3 asset improvements, costs associated with returning the underlying P3 assets in a contractually specified condition or to a contractually specified location, or a substantial cancellation penalty
- The history of exercising options to extend or terminate
- The extent to which the underlying P3 asset is essential to the provision of government services

**Subsequent Update – Statement 99, Omnibus 2022**

An option to terminate is an unconditional right that exists within the contract. A provision that gives a transferor or operator the right to terminate the P3 only in certain circumstances or upon the occurrence of certain events, such as the action or inaction of the other party to the contract, should not be considered an option to terminate the P3 for purposes of determining the P3 term. For example, provisions that allow for the termination of a P3 due to a violation of P3 terms and conditions, such as a default on payments, are not considered options to terminate the P3.

### Reassessment

A transferor and an operator should reassess the P3 term only if one or more of the following occur:

- 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.
- 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.
- An event specified in the P3 arrangement that requires an extension or termination of the P3 takes place.

## Transferor Accounting

This guidance generally requires a transferor to continue to recognize an underlying P3 asset as an asset. When the underlying P3 asset is a new asset purchased or constructed by the operator and does not meet the definition of an SCA, a transferor would recognize a receivable measured based on the operator's estimated carrying value of the underlying P3 asset as of the future date of ownership transfer.

| Recognition & Measurement – Transferors | | |
|---|---|---|
| Existing Asset | New Asset Purchased or Constructed (SCA) | New Asset Purchased or Constructed (Not an SCA) |
| Continue to recognize P3 asset at **carrying value** | Recognize underlying P3 asset when placed into service at **acquisition value** | Receivable for the underlying P3 asset when placed into service at **operator's estimated carrying value of the P3 asset as of the expected date of the transfer of ownership** |
| Receivable for installment payments | Receivable for installment payments | Receivable for installment payments |
| Deferred inflow of resources | Deferred inflow of resources | Deferred inflow of resources |
| Improvements – Recognize asset at **acquisition value** and a related deferred inflow of resources | | |
| Depreciation and impairment, unless the P3 agreement requires the operator to return the underlying asset in its original condition | | |

## Receivable for Installment Payments

Measurement of the receivable for installment payments should include the following:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index (CPI) or a market interest rate), initially measured using the index or rate as of the commencement of the P3 term. Variable payments based on the future performance by the operator should not be included
- Variable payments that are fixed in substance
- Residual value guarantee (RVG) payments that are fixed in substance

A transferor would recognize a receivable for installment payments—if any—to be received from the operator, which would be measured at the present value of the expected payments during the P3 term. The future P3 payments to be received should be discounted using the interest rate the transferor charges the operator, which may be the P3's implicit interest rate. A transferor is not required to apply the interest imputation guidance in Statement 62 but may do so as a means of determining the P3's implicit interest rate.

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—interest revenue—for the period. P3 payments received should be allocated first to the accrued interest receivable and then to the receivable for installment payments.

### *Remeasurement*

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 P3 arrangement before the changes if the changes individually or in the aggregate are expected to significantly affect the amount of the receivable for installment payments since the previous measurement:

- P3 term change
- Change in the interest rate the transferor charges the operator

- A contingency, upon which some or all of the variable payments that will be received over the remainder of the P3 term are based, is resolved. For example, an event occurs that results in variable payments that were contingent on the performance or use of the underlying P3 asset becoming fixed payments for the remainder of the P3 term

If remeasurement is required, the receivable also should be adjusted for any change in an index or a rate used to determine variable payments if the index or rate change is expected to significantly affect the amount of the 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.

The discount rate should be updated as part of the remeasurement only if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the receivable for installment payments:

- P3 term change
- There is a change in the interest rate the transferor charges the operator

**Subsequent Update – Statement 99, Omnibus 2022**

Statement 94, as originally issued, included remeasurement guidance for a transferor's receivable for the underlying P3 asset if there is a P3 modification (noted below). However, there was no guidance if there is a change in the P3 term not resulting from a modification, *e.g.*, a change in the assumption about whether the right to extend or terminate the P3 will be exercised by an operator or a transferor. Statement 99 requires remeasurement of the receivable for the underlying P3 asset if there is a change in the P3 term only if the change is expected to significantly affect the receivable amount.

Statement 94 did not provide for remeasurement of the deferred outflow of resources related to the liability for the underlying P3 asset if the liability is remeasured. Statement 99 requires remeasurement of the deferred outflow of resources if that liability is remeasured. The adjustment should be the same amount as any change resulting from the remeasurement of the liability for the underlying P3 asset, without reducing the deferred inflow of resources below zero.

Statement 99 also clarifies that a receivable for installment payments should not be remeasured solely for a change in index or a rate used to determine variable payments.

## Deferred Inflow of Resources

A transferor also would recognize a deferred inflow of resources for the consideration received or to be received by the transferor. A transferor should initially measure the P3's deferred inflow of resources as the sum of the following assets when the related assets are recognized:

- The amount of the initial measurement of the receivable for installment payments
- P3 payments received from the operator at or before the P3 commencement term, *e.g.*, an upfront payment
- The amount of the initial measurement for the underlying P3 asset
- The amount of the initial measurement for improvements to the underlying P3 asset
- The amount of the initial measurement of the receivable for the underlying P3 asset

Revenue would be recognized by a transferor in a systematic and rational manner over the P3 term.

## Initial Direct Costs

Any initial direct costs incurred by the transferor should be reported as outflows of resources—expense—for the period. This includes costs incurred to originate a P3 that result directly from and are essential to that P3 and would not have been incurred had the P3 transaction not occurred and costs directly related to specified activities performed by the transferor for that P3 such as evaluating the prospective operators' financial condition; evaluating and recording guarantees, collateral, and other security arrangements; negotiating P3 terms; preparing and processing P3 documents; and closing the transaction.

## Notes to Financial Statements—Transferors

A transferor is required to disclose the following about its P3 activities (which may be grouped for purposes of disclosure):

- A general description of P3 arrangements, including the status of projects during the construction period, and the basis, terms, and conditions on which any variable payments not included in the measurement of the receivable for installment payments are determined
- The nature and amounts of P3 assets and deferred inflows of resources that are recognized in the financial statements
- The discount rate or rates applied to the measurement of the receivable for installment payments
- 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 RVGs and termination penalties
- The nature and extent of rights retained by the transferor or granted to the operator under the P3 arrangements

Some P3 arrangements may include 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.

# Operators Accounting

## Overview

A governmental operator would report an intangible right-to-use (RTU) asset related to an underlying P3 asset that either the transferor owns or is a new asset purchased or constructed by the operator meeting the SCA definition. The RTU asset would be recognized when the underlying P3 asset is placed into service as the sum of the following:

- The amount of the initial liability for installment payments
- P3 payments made to the transferor at or before the P3 commencement, *e.g.*, an upfront payment
- The cost of the purchased or constructed underlying P3 asset, if the P3 meets the SCA definition
- Improvements cost for an existing underlying P3 asset
- Initial direct costs that are ancillary charges necessary to place the RTU asset into service

A governmental operator also would recognize a liability for installment payments—if any—to the transferor, which would be measured as the present value of the payments expected during the P3 term. A deferred outflow of resources would be recognized for the underlying asset provided or to be provided to the transferor if the P3 asset is a newly purchased or constructed asset by the operator and the P3 does not meet the definition of an SCA. A deferred outflow of resources would be recognized for the consideration provided or to be provided to the transferor. Expense would be recognized in a systematic and rational manner over the P3 term.

| Recognition & Measurement – Operators | | |
|---|---|---|
| Existing Asset | New Asset Purchased or Constructed (SCA) | New Asset Purchased or Constructed (Not an SCA) |
| Intangible RTU asset | Intangible RTU asset | A liability for the underlying P3 asset |
| Liability for installment payments | Liability for installment payments | Liability for installment payments |
| | | A deferred inflow of resources for the underlying P3 asset to be transferred |

## Liability for Installment Payments

An operator initially should measure the liability for installment payments at the present value of P3 payments expected to be made during the P3 term, including the following:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the CPI or a market interest rate), initially measured using the index or rate as of the commencement of the P3 term. Variable payments including revenue-sharing arrangements based on the future performance by the operator should not be included; such payments should be recognized as an outflow of resources when incurred
- Variable payments that are fixed in substance
- RVG amounts that are reasonably certain of being required to be paid by the operator
- Termination penalties, if the P3 term reflects the operator exercising a termination option or a fiscal funding or cancellation clause
- Any other payments to the transferor associated with the P3 that are reasonably certain of being required based on an assessment of all relevant factors

**Subsequent Update – Statement 99, Omnibus 2022**

A liability for installment payments should not be remeasured solely for a change in an index or a rate used to determine variable payments, nor should the discount rate be reassessed solely for a change in an operator’s incremental borrowing rate.

## Discount Rate

The future P3 payments should be discounted using the interest rate the transferor charges the operator, which may be the P3’s implicit interest rate. 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 P3 installment payment amounts during the P3 term) should be used. The operator is not required to apply the interest imputation guidance in Statement 62 but may do so as a means of determining the P3’s implicit interest rate.

## Amortization Interest Expense

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—interest expense—for the period. Any P3 payments made should be allocated first to the accrued interest liability and then to the liability for installment payments.

## Remeasurement

The liability for installment payments should be remeasured 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 P3 arrangement before the changes—and the changes individually or in the aggregate are expected to significantly affect the amount of the liability since the previous measurement:

- P3 term change
- RVG payment likelihood has changed from reasonably certain to not reasonably certain, or vice versa
- There is a change in the estimated amounts for payments already included in the measurement of the liability for P3 payments
- There is a change in the interest rate the transferor charges the operator, if used as the initial discount rate
- A contingency, upon which some or all of the variable payments that will be made over the remainder of the P3 term are based, is resolved so that those payments now meet the criteria for measuring the liability for installment payments. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying P3 asset to become fixed payments for the remainder of the P3 term

If remeasurement is required, 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**.

The discount rate should be updated as part of the remeasurement only if the P3 term changes and is expected to significantly affect the liability amount. If an update is required, the discount rate should be based on the revised interest rate the transferor charges the operator at the time of the update. If that interest rate cannot be readily determined, the operator's estimated incremental borrowing rate at the time of the update should be used.

**The liability 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.**

## RTU Asset

The RTU asset should initially be measured as the sum of the following when the underlying P3 asset is placed into service:

- The amount of the initial measurement of the liability for installment payments, as calculated above
- P3 payments made to the transferor at or before the commencement of the P3 term, if applicable, *e.g.*, an upfront payment associated with a P3
- The cost of the purchased or constructed underlying P3 asset, if the P3 meets the definition of an SCA
- The cost of improvements to an existing underlying P3 asset
- Initial direct costs that are ancillary charges necessary to place the RTU asset into service. These would be considered debt issuance costs under Statement 7, Advance Refundings Resulting in Defeasance of Debt, and should be recognized as outflows of resources in the period incurred

An RTU asset should be amortized in a systematic and rational manner over the shorter of the P3 term or the useful life of the underlying P3 asset and should be reported as an outflow of resources, which may be combined with depreciation expense related to other capital assets for financial reporting purposes.

### Remeasurement

An RTU asset generally should be adjusted by the same amount if the corresponding liability for installment payments is required to be remeasured. However, if that change reduces the carrying value of the operator's RTU asset to zero, any remaining amount should be reported in the resource flows statement, *i.e.*, a gain.

### Impairment

Impairment indicators on the underlying P3 asset may result in a change in the manner or duration of use of the RTU asset and may indicate that the service utility of the underlying P3 asset is impaired. The length of time during which the operator cannot use the underlying P3 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 the RTU asset's service utility. If the underlying P3 asset is impaired, the amount reported for the RTU 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 P3 Asset

At inception, an operator should recognize a liability for the underlying P3 asset if it must be returned to the transferor at the end of the agreement. The liability should be measured based on the estimated carrying value of the underlying P3 asset as of the expected date of ownership transfer. The liability should be remeasured if there is a change in the P3 term that is expected to significantly affect the amount of the estimated carrying value of the underlying P3 asset as of the ownership transfer date. The liability also should be remeasured if there is a modification or termination of the P3 agreement.

### Deferred Outflow of Resources

The operator also should recognize a deferred outflow of resources equal to the estimated carrying value of the underlying P3 asset as of the expected date of ownership transfer and then subsequently recognize the deferred outflow of resources as outflows of resources—expense—in a systematic and rational manner over the remaining P3 term.

**Subsequent Update – Statement 99, Omnibus 2022**

The deferred outflow of resources should be adjusted by the same amount as any change resulting from the remeasurement of the liability for the underlying P3 asset. However, if that change reduces the deferred outflow of resources to zero, any remaining amount should be reported in the resource flows statement.

## Notes to Financial Statements – Operators

An operator should disclose the following about its P3 activities (which may be grouped):

- A general description of its P3 arrangements, including the project status during the construction period and the basis, terms, and conditions on which any variable payments not included in the measurement of the liability for installment payments are determined
- The nature and amounts of P3 assets, liabilities, and deferred outflows of resources that are recognized in the financial statements
- The discount rate or rates applied to the measurement of the liability for installment payments

- 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
- 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
- The nature and extent of rights granted to the operator or retained by the transferor under P3 arrangements
- The components of any loss associated with an impairment (the impairment loss and any related change in the liability)

## Multiple Components

P3 arrangements may contain multiple components, such as a contract that contains both a P3 component and a non-P3 component (a right to operate a facility and the facility's maintenance services), or a P3 that contains multiple underlying P3 assets. If a P3 involves multiple underlying P3 assets with different terms, a transferor and an operator should account for each underlying P3 asset as a separate P3 component. The operator also should account for each underlying P3 asset as a separate P3 component if the underlying P3 assets are in different major asset classes.

In general, the transferor or the operator should account for the P3 and non-P3 components as separate arrangements and allocate the contract price. For the allocation, 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 contract terms and professional judgment, maximizing the use of observable information. Some contracts provide discounts for including multiple P3s or P3 and non-P3 components together in one contract. Those discounts may be considered when determining whether individual component prices do not appear to be unreasonable. **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.**

### *Practical Expedient*

If a contract does not include individual component prices, or if any of those prices appear to be unreasonable, a transferor or an operator should use professional judgment to determine the best estimate for price allocation, maximizing the use of observable information. If this is not practicable for some or all of the contract's components, a transferor or an operator can account for those components as a single P3, based on the primary P3 component.

## Modification or Termination?

Amendments to the P3 arrangement are common, including price changes, lengthening or shortening the P3 term, adding or removing an underlying P3 asset, and changing the index or rate upon which variable payments depend. An amendment should be considered a P3 modification unless the operator's right to use the underlying P3 asset decreases, in which case the amendment should be considered a partial or full P3 termination. **Exercising an existing option, such as an option to extend or terminate the P3 arrangement, is subject to the guidance for remeasurement.**

In light of the upcoming London Interbank Offered Rate sunset, a reference rate update would not be considered a P3 modification.

### *Modification*

A transferor and an operator should account for changes as a new contract if both of the following conditions are present:

- The modification gives the operator an additional underlying P3 asset by adding one or more underlying P3 assets that were not included in the original arrangement.
- The increase in payments for the additional underlying P3 asset does not appear to be unreasonable based on the amended terms and professional judgment, maximizing the use of observable information, *e.g.*, readily available standalone prices

### Transferors

For P3 modifications that do not result in a new contract, a transferor should remeasure the receivable for installment payments and the receivable for the underlying P3 asset. The deferred inflow of resources should be adjusted by the change in the receivables immediately before and after the P3 modification. To the extent that the change relates to payments for the current period, the change should be recognized as an inflow or outflow of resources—revenue or expense—for the current period.

#### *Debt Refundings*

If a P3 modification is made due to a debt refunding by either the operator or the transferor and operator receives or retains the refunding's perceived economic advantages, the transferor should adjust the receivable for installment payments based on the interest rate applicable to the revised P3 arrangement. The adjustment to the deferred inflow of resources should be recognized as an inflow or outflow of resources—gain or loss—over the remaining life of the old debt or the life of the new debt, whichever is shorter.

### Operators

For P3 modifications that do not result in a new contract, an operator should remeasure the liability for installment payments and the liability for the underlying P3 asset. The RTU asset should be adjusted by the change in the liability for installment payments immediately before and after the modification. If the change reduces the RTU asset's carrying value to zero, any remaining amount should be reported in the resource flows statement, *e.g.*, a gain. A deferred outflow of resources should be adjusted by the change in the liability for the underlying P3 asset immediately before and after the P3 modification.

#### *Debt Refundings*

Statement 94 includes accounting treatment for modifications resulting from a debt refunding or advance refunding by either a transferor or operator when the operator receives or retains the perceived economic advantages of the refunding:

- For a P3 modification that results from a debt refunding by the transfer 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 P3 payments under the revised P3 using the new effective interest rate. The resulting difference should be reported as a deferred outflow or inflow of resources and should be recognized as an adjustment to the outflow of resources—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.
- For an advance refunding by the transferor that results in a debt defeasance and 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.

## *Termination*

An amendment that decreases an operator's right to use the underlying P3 asset—the P3 term is shortened or the number of underlying assets is reduced—should be accounted for as a partial or full P3 termination.

### Transferors

A gain or loss should be recognized for a partial or full P3 termination and would include:

- 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 P3 asset
- The reduction in the carrying value of any deferred inflow of resources related to the P3 payments received from the operator at or before the commencement of the P3 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 P3 asset
- The reduction in the carrying value of any deferred inflow of resources related to the initial measurement of the underlying P3 asset or improvements to the underlying P3 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 P3 asset
- The reduction in the carrying value of any deferred inflow of resources related to the receivable for the underlying P3 asset but not to less than zero for (1) the reduction in carrying value of the receivable for the underlying P3 asset, (2) termination penalties paid to the operator, and (3) amounts paid to the operator to purchase the underlying P3 asset

### Operators

An operator generally should account for the partial or full P3 termination by recognizing a gain or loss for the sum of the following reductions in the RTU asset's carrying value, if applicable:

- Liability for installment payments and the liability to transfer ownership of the underlying P3 asset
- Upfront payments—but not to less than zero—for the carrying value of the liability for the underlying P3 asset, termination penalties received from the transferor, and amounts received from the transferor to acquire the underlying P3 asset
- The cost of a purchased or constructed underlying P3 asset or the cost of improvements to an existing underlying P3 asset—but not to less than zero—for termination penalties received from the transferor
- Initial direct costs that are ancillary charges necessary to place the RTU asset into service

## APAs

An APA is similar to a P3 except that the government retains demand risk and responsibility for fee collection for the underlying asset's use. An APA related to **designing, constructing, and financing** an infrastructure or other nonfinancial asset in which ownership of the asset transfers at contract's end would be accounted for as a financed purchase of the underlying infrastructure or other nonfinancial asset. An APA that is related to **operating or maintaining** an infrastructure or other nonfinancial asset would be reported as an outflow of resources in the period to which payments relate.

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, each component should generally be recognized as a separate arrangement. However, if a contract does not include prices for individual components—or if any of those prices appear to be unreasonable—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.

| APA contains both (1) design, construction, or financing components and (2) operation or maintenance components | APAs or components related to design, construction, or financing of nonfinancial assets, ownership of which will transfer to the government by the end of the contract | APAs or components related to the operation or maintenance of nonfinancial assets |
|---|---|---|
| • Account for each separately | • Report as a financed purchase of the underlying nonfinancial assets | • Report as an outflow (expense/expenditure) in the period to which they relate |

## Effective Date & Transition

These changes are effective for fiscal years beginning after June 15, 2022. Earlier application is encouraged. The changes would be applied retrospectively, if practicable, for all prior fiscal years presented. P3s would be recognized and measured using the facts and circumstances that exist at the beginning of the implementation period or if applicable to earlier periods, the beginning of the earliest period restated. In the year of adoption, the financial statement notes should disclose the nature of the restatement and its effect or the reason for not restating prior years presented.

Even if there is no change in net position, beginning balances are restated.

| Implement for Fiscal Years Ending | | | | |
|---|---|---|---|---|
| **Fiscal Years Beginning After** | March 31 | June 30 | September 30/ October 31 | December 31 |
| June 15, 2022 | 2024 | 2023 | 2023 | 2023 |

## Conclusion

For some governments, Statement 94’s adoption will be complex and likely will require significant hours to implement correctly. **FORVIS** can help educate your team and assist with analysis and documentation. If you would like assistance complying with the new guidance, contact one of our professionals. Visit our website to learn more.

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