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GUIDE

Public Private Partnerships: Financial Reporting

Technical Guide

Our Profile

Partnership to Engage, Reform and Learn (PERL)

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The PERL programme is being delivered through three 'pillars' which plan together to support sustainable service delivery reforms: Pillar 1. Accountable, Responsive & Capable Government (ARC); Pillar 2. Engaged Citizens (ECP); and Pillar 3. Learning, Evidencing and Advocacy Partnership (LEAP). The programme works at the federal level, in the partner states of Kano, Kaduna and Jigawa, and through regional learning and reform hubs in the South West, South East and North-East areas of Nigeria.

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The opinions expressed in this guide are those of the authors and do not necessarily represent the views of the Department for International Development.

Contents

1 Introduction 1

2 The Fiscal Reporting Framework 2

2.1 Overview 2

2.2 International Public Sector Accounting Standards (IPSAS) 4

2.3 Individual and consolidated reporting 6

2.4 IMF GFS Reports 6

2.5 Other disclosure requirements 6

3 Choosing the appropriate Financial Reporting Standard 13

4 The Case Study 14

4.1 Classifying the PPP arrangements 15

5 Financial Reporting under different Options 16

5.1 Option 1: Government funded and contracts for operational and management services 16

5.2 Option 2: Leasing of ferries 17

5.3 Option 3: Service concession assets 19

5.4 Option 4: Joint venture 22

5.5 Option 5: Private sector 24

Annex 1: IPSAS and RPGs in issue at November 2018 25

Annex 2: Case study Financial Statements 27

Figures and Tables

Table 1: Financial and transparency reporting standards 3

Table 2: Explicit PPP liabilities 7

Table 3: Sample Reporting Format for Direct Liabilities 9

Table 4: Sample Reporting Format for Contingent Liabilities 10

Table 5: P-FRAM risk matrix 11

Table 6: IPSAS 32 GPFR 21

Figure 1: IF Code of Fiscal Transparency 11

Figure 2: Overview of IPSAS PPP requirements 13

Figure 3: Taxonomy of PPP options 15

Figure 4: Exposure draft 64 application steps 19

Figure 5: IPSAS 32 decision stages 20

Figure 6: Joint arrangement, joint venture or investment in associate? 22

Acronyms and definitions

ALC	Aviation Leasing Company
BOT	Build-Operate-Transfer
DBFO	Design, Build, Finance and Operate
DBFOT	Design-Build-Finance-Operate-Transfer
DFID	Department for International Development
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
EU	European Union
FAAN	Federal Airports Authority of Nigeria
FCT	Federal Capital Territory, Abuja
FGN	Federal Government of Nigeria
FMF	The Federal Ministry of Finance
GFS	Government Finance Statistics
GPFR	General Purpose Financial Reports
ICD	Inland Container Depot
ICRC	Infrastructure Concession Regulatory Commission
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
MDAS	Ministries, Departments and Agencies
MMA2	Murtala Muhammed Airport
MRO	Maintenance, Repairs and Overhaul
MTEF	Medium-Term Expenditure Framework
MTSS	Medium Term Sector Strategy
N4P	The National Policy on Public Private Partnerships
NEMSA	Nigerian Electricity Management Services Agency
NPS	Nigerian Prisons Service (now Nigerian Correctional Service)
NSIA	Nigeria Sovereign Investment Authority
OPPP	Office of Public-Private Partnership
PERL	Partnership to Engage, Reform and Learn
P-FRAM	PPP Fiscal Risk Assessment Model
PPP	Public Private Partnership

1 Introduction

This Technical Guide is designed to provide guidance on the financial disclosure and reporting requirements of different approaches to the acquisition of infrastructure and other assets by the Federal Government of Nigeria and States within the Federal Republic.

The guide uses a case study of a ferry acquisition and operation by the (fictitious) State of Otrary within the Federal Republic of Nigeria to illustrate the financial reporting requirements for various forms of public private partnerships (PPPs). Before considering the case study, the guide addresses the framework for fiscal reporting.

2 The Fiscal Reporting Framework

2.1 Overview

There a number of international standards and requirements relating to fiscal reporting by government entities. International Public Sector Accounting Standards (IPSAS) are issued by the IPSAS Board of the International Federation of Accountants (IFAC). Nigeria has made a decision to implement the accrual IPSAS[1] for financial reporting at State and Federal level.

However, at present much of the financial reporting by the States remains cash based, as are the Federal and State budgets. Therefore, reporting according to the Cash Basis IPSAS also needs to be considered. In addition to IPSAS, there are Recommended Practice Guidelines issued by the IPSAS Board.

As well as annual financial reports by the Federal and State governments, Nigeria prepares national statistical reports, e.g. Government Finance Statistics (GFS) (2014 basis) reports, in accordance with IMF requirements and macro-level economic statistics based on the UN System of National Accounts 2008. A Debt Sustainability Analysis (DSA) is prepared at the Federal and State Levels in accordance with the IMF DSA Framework.

There are various requirements for fiscal transparency, notably the IMF Code of Fiscal Transparency.

However, there are no international standards in relation to Medium Term Fiscal Frameworks (MTEF), annual budgets, future commitments, fiscal risk and budget execution reports. These issues also need to be addressed taking account of the above reporting standards and requirements for fiscal transparency, plus the perceived needs of both citizens and government.

In addition, the guide considers risk, fiscal sustainability and transparency issues, and the impact of the options on the MTEF and annual budgets.

In a number of the above area, the rules and requirements are still evolving in response to identified issues. As far as feasible, such developments and likely future issues are identified in the text.

[1] IPSAS are issued by the IPSAS Board of the International Federation of Accountants

The various requirements are all summarised in Table 1 below.

Table 1: Financial and transparency reporting standards

Title	Issuing body	Description	Applicability
ACCOUNTING STANDARDS AND GUIDELINES			
International Public Sector Accounting Standards (IPSAS)	International Public Sector Accounting Standards Board (IPSASB) which is part of the International Federation of Accountants (IFAC)	Financial reporting standard for government entities (except public corporations). Applicable to national and state governments. Mandatory to enable GPFRs to be stated to be in accordance with IPSAS	Financial statements of sovereign and State governments and all entities in the general government sector
Recommended Practice Guidelines	Also issued by the IPSASB, these are recommendations not mandatory	A series of recommendations for reporting on areas where the IPSASB does not consider it appropriate for mandatory requirements	Financial statements of sovereign and State governments and all entities in the general government sector
STATISTICAL SYSTEMS FOR FINANCIAL REPORTING			
The UN System of National Accounts (UN SNA) 2008	United Nations	A system by which countries report in standardised format information of a financial and economic nature about each sovereign entity (extends beyond financial information)	System of national accounts for all countries
The IMF Government Finance Statistics (GFS) Manual 2014	International Monetary Fund (IMF)	A standardised reporting methodology for all national governments based on principles in UN SNA	Financial reports of the public sector for each country (incorporated into UN SNA)
The IMF Debt Sustainability Framework 2005	International Monetary Fund (IMF)	A framework designed to guide government borrowing decisions	Debt assessment framework for low and middle income countries
STATISTICAL SYSTEMS FOR FINANCIAL REPORTING			
IMF Fiscal Transparency Code	International Monetary Fund (IMF)	A code to promote transparency and accountability in the use of public resources and support governments' efforts to strengthen economic governance, policymaking, and economic institution building	All countries

The disclosure requirements of IPSAS are contained in a series of separate Standards. The GFS rules are all contained within the GFS Manual, plus supplementary guidance developed by the IMF. The GFS rules are based on the UN System of National Accounts (SNA) and are consistent with other macroeconomic statistics, including the Debt Sustainability Framework.

2.2 International Public Sector Accounting Standards (IPSAS)

On the 28th of July 2010, the Federal Executive Council (FEC) of the Federal Republic of Nigeria took the decision that Public Sector entities in Nigeria should adopt IPSAS while Private Sector entities should adopt International Financial Reporting Standards (IFRS). IPSAS implementation at the Federal level commenced in 2016 and the Federal Government has produced financial statements that are stated to be in compliance with the accrual IPSAS.

The Office of the Accountant General of the Federation (OAGF) has indicated that adoption of IPSAS accrual reporting by the States is slow. To support this process OAGF has produced an "Accrual Accounting Manual" in March 2015 to guide accountants at State and Federal level through the implementation of accrual accounting.

2.2.1 IPSAS reporting standards

IPSAS are financial reporting standards for not-for-profit entities that meet the following criteria:

Financial reports (referred to as General Purpose Financial Reports, GPFR) compliant with IPSAS should be published for entities that meet the above criteria. As a general rule, the above definition encompasses all entities that are within the boundary of the General Government Sector (GGS) as defined for macroeconomic statistics, e.g. the UN SNA 2008.

Entities that are controlled by a government entity (as defined above) but have a profit objective are classified as Public Corporations (IPSAS uses a different term "Commercial Public Sector Entities" with the same meaning) and are a sub-sector within the Corporations Sector.

In the context of PPPs, the individual entity in Table 1 would normally be the relevant Federal or State government.

There are two groups of IPSAS:

- **Accrual IPSAS** – a series of standards for entities reporting under the accrual basis of accounting.
- **Cash Basis IPSAS** – a single standard for entities reporting under the cash basis of accounting.

In addition, there is a Conceptual Framework for the accrual IPSAS, and Recommended Practice Guidelines (RPGs) which supplement the Standards. As their name implies, these latter are recommended but not mandatory for reporting purposes.

The IPSAS Board assumes that all entities are progressively moving to reporting under the accrual IPSAS. The Cash Basis Standard is therefore regarded as an interim phase in the progression to accrual.

[2] IPSAS Conceptual Framework Chapter 4 papa 4.3

2.2.2 Financial reports compliant the accrual IPSAS

As indicated above there are accrual IPSAS, currently IPSAS 1 – 41 (though some have been withdrawn). For GPFR to be IPSAS compliant they must comply with all the relevant IPSAS. A full list of IPSAS as of November 2018 is provided in Annex 1.

Of particular note in relations to PPP reporting are:

- IPSAS 1 – 3 setting the general requirements for financial statements
- IPSAS 11 - construction contracts
- IPSAS 13 - leases
- IPSAS 17 - property, plant and equipment
- IPSAS 19 - provisions, contingent assets and contingent liabilities
- IPSAS 28, 30 and 41 - financial instruments
- IPSAS 32 - Service concession arrangements
- IPSAS 36-37 - joint ventures and joint arrangements

The requirements on contingent liabilities require special mention. According to IPSAS 19, contingent liabilities may be implicit or legally binding and arise from past events that may lead to an actual outflow of funds if certain events occur. Contingent liabilities are not recognised in the GPFR as actual liabilities until (or if) such event occurs. The situation where a contingent liability changes to an actual liability is referred to as the liability crystallising.

There must be in the notes to GPFR information on all contingent liabilities of the entity (including subsidiaries) which have not crystallised. This information must include:

- Brief description of the nature of the contingent liability (by class if appropriate)
- Estimate of the potential financial effect if the liability crystallises
- Indication of the uncertainties relating to such outflow.

There is no IPSAS dealing with PPPs as such, but there are a number of IPSAS that embrace the different types of PPP. Therefore, the first requirement is to identify which IPSAS applies to a particular PPP.

Other IPSAS from the list that are relevant to specific types of PPPs are referenced under each of the case study options below.

2.2.3 Financial reports compliant with the Cash Basis IPSAS

The Cash Basis IPSAS (revised in 2017) is in two parts:

- **Part 1** (mandatory): this requires a cash flow statement (referred to as a statement of receipts and payments), notes and accounting policies. There is no requirement for consolidated financial reports.

- **Part 2** (encouraged additional disclosures): this allows complete discretion for additional information including information on actual and contingent liabilities and consolidated financial reports by controlling entities (i.e. State and Federal governments).

GPFR under Part 1 of the standard will only report the cash flows of the entity, i.e. the financial reports of State and Federal governments.

Part 1 has no specific disclosure requirements of the existence or nature of any PPP contracted by the entity. If any flows to or from the entity result from the existence of the PPP, then such flows will form part of the total entity cash flow. In the analysis of cash flows within the financial report, it is at the discretion of the individual reporting entity whether to separately classify PPP related cash flows. There is no Part 1 requirement to disclose liabilities, whether actual or contingent. Nor is there any requirement to consolidate information.

However, under Part 2 of the Cash Basis standard such additional information is encouraged to be disclosed in the Notes to the financial reports. Thus, under the Cash Basis, IPSAS PPP disclosure becomes optional at the discretion of each entity.

[4] *Adamu Mudi, "Effective Institutional and Legal Regulatory Framework: A Panacea to Efficient Road Infrastructure Development", (Journal of Harmonized Research in Engineering, 2016)*

2.3 Individual and consolidated reporting

As indicated above, for countries adopting the accrual IPSAS basis of financial reporting, IPSAS compliant GPFR are required for both the individual entity (e.g. the sponsoring authority) and consolidated GPFR for controlling entities (Federal and State governments). The principle of consolidation is a three-stage process:

1. Aggregate (add together) all economic flows, assets and liabilities of the constituent entitles of the group being consolidated.
2. Eliminate flows between entities within the consolidated group.
3. Deduct minority interests of any consolidated entity where there is an external interest.

In general, within Nigeria, only consolidated financial reports for the State or Federal Government are published. Individual Ministries, Departments or Agencies (MDAs) do not normally publish their financial statements.

In addition to IPSAS compliant GPFR, IMF GFS reports are required for the national general government sector. There is no requirement for GFS reports on individual States or on individual government entities. Other statistical reports, e.g. DSA reports, are produced for the nation as a whole and also unpublished reports at State level.

2.4 IMF GFS Reports

As indicated above, the IMF GFS 2014 requires consolidated financial reports on the general government sector. There is no requirement for such reports to be audited or published, but they are included in summary in the IMF Yearbook. GFS 2014 reports are also an input to national macroeconomic statistics, e.g. national income accounts.

GFS reporting embraces both entities within the General Government Sector and those within the Public Corporation sub-sector, but these are consolidated separately. Hence the distinction between entities within each sector is critical.

2.5 Other disclosure requirements

Over and above the regulatory requirements, there is a need to provide information on PPPs for the government managers and for transparency for the benefit of citizens. These requirements are considered in the following sub-sections. In this context, the ICRC online database is noted as being a model for States to follow as it contains much (but not all) of the information requirements identified below.

2.5.1 Liabilities Arising from PPPs

Liabilities arising from PPPs can either be explicit or implicit.

- Explicit liabilities are defined in contracts and take the form of direct and contingent liabilities. Direct liabilities are known payments that must be paid in accordance to the PPP contract while payment of contingent liabilities depends on some uncertain future event outside the control of the government. The likelihood of the contingent liability's occurrence, its value and payment timing may all be unknown.
- Implicit liabilities are those that are not specified in the contract and arise from moral obligations or public expectations. These take place when governments take out payments despite having no legal commitment to do so to save a project that is considered to be politically and socially sensitive to fail.

Table 2: Explicit PPP liabilities

Categories	Types	Examples
Direct Liabilities	Up-front "viability gap" payments – an up-front capital subsidy paid out as construction progresses.	Government makes a capital contribution to ensure a project that is economically desirable but not commercially viable can proceed.
	Availability payments – a regular payment over the life of the project is conditional on the availability of the service or assets at a specified quality; the payment may be adjusted with bonuses or penalties related to performance.	Government commits to pay healthcare services in a PPP hospital or electricity generated at a PPP powerplant based on expected levels of delivery and performance.
	Output-based payments – payments made per unit of service.	Government pays the PPP provider an amount corresponding to per vehicle km. driven on a PPP highway.
Contingent Liabilities	Guarantees on particular risk variables – an agreement to compensate the private party for revenue losses when a particular risk variable deviate from a contractually specified level.	Government guarantee to be called if demand falls below a specified level (as in take-or-pay provision in a power generation or water supply contract), or if exchange rates remaining within a certain rage.
	Compensation clauses – a commitment to compensate the private party for damage or loss due to certain, specified, uninsurable force majeure events.	Government compensates the PPP provider for uninsurable damage to facilities during an earthquake.
	Termination payment commitments – a commitment to pay an agreed amount should the contract be terminated due to default by public or private party (amount may depend on circumstances of default).	Government defaults on the timely provision of right-of-way for a road project; the public sector terminates the contract in accordance to the termination clause in the PPP contract.
	Debt guarantees or other credit enhancements – a commitment to repay part or all of the debt used to finance a project in the event that the private borrower does not repay it. The guarantee could cover a specific risk or event. Guarantees are used to provide security to a lender that the loan will be repaid.	Government pays a creditor bank when a PPP contractor defaults on a loan that has sovereign guarantee.

In cases where a project is economically viable but not financially viable, the government may want to provide subsidies to ensure that the PPP is attractive to private investors. Subsidies refer to direct fiscal contribution or a grant to pay a portion of costs that is not repaid by project revenues. Subsidy payments can either be direct or contingent liabilities depending on the specific provision in the contract between the public and private sector. Subsidies take the form of capital contributions, availability and output-based payments (as in direct liabilities) or implicit subsidies, such as concessional loans and guarantees which are less transparent.

Disclosure of PPP Liabilities

Direct liabilities must be incorporated into the budget as future cash flows. On the other hand, contingent liabilities refer to events that may or may not occur. A decision on whether they should be incorporated into the budget in full or in part must be based on the probability of the events actually becoming cash flows.

Disclosing information on government commitments and risk exposure to PPPs can improve the management of fiscal costs arising out of PPP contracts. A World Bank study on the Disclosure of Project and Contract Information in PPPs (2013) surveyed emerging practices on the disclosure of information on PPP projects and contracts. The study revealed the following key elements of proactive disclosure:

- **Contract disclosure:** the public availability of signed PPP contracts (including any changes made since the contract was originally signed), with minimal redactions which reflect commercially confidential information;
- **PPP fiscal commitments:** The disclosure of future stream of payments and government commitments under PPP contracts;
- **Guarantees:** Availability of information on government guarantees, including the form of side letters;
- **Contract summary:** The publication of a summary which provides in plain language the most important elements of the contract and project and key information on the rationalisation of the project, selections as a PPP and procurement; and
- **Performance and audit reports:** Information on a regular basis on the performance of the project.

Budgeting and Disclosure of PPP Liabilities in Nigeria

It is good practice to establish and continuously update a centralised registry of all PPP commitments of the public sector at the State and Federal level. However, based on questionnaires sent to relevant Federal and State agencies involved in PPPs, there is an apparent absence of any monitoring framework for PPP commitments. There is also no assessment and quantification of fiscal risks arising from such contracts. There is, thus, a pressing need to have comprehensive aggregated information of present and future PPP fiscal flows and risks at both State and Federal level.

The **conclusion** is that despite the need to provide for the fiscal flows resulting from PPPs in forward planning - MTFF, MTEF and Budget - there is at present inadequate aggregated information to reliably forecast the required provision. This problem is aggregated by the absence of fiscal risk measures relating to PPPs.

2.5.2 Medium Term Expenditure Framework (MTEF), annual budgets and PPPs

There are no external standards governing the content and presentation of MTEF and budget information. At State and Federal level budgets are prepared on a cash basis. Also, there is a requirement to compare budget with ex post financial information on the same basis. It is therefore desirable that MTEF, budget and GPFR are all produced on a consistent basis.

Budgeting for direct liabilities is straightforward if the timing and the value of payments are known and specified in the contract. These payment requirements could be treated the same way as publicly financed projects and should be built into the Medium-Term Expenditure Framework (MTEF) and the annual budget allocation of the relevant department. This ensures that PPP payments require the same approvals in the budget and budget plans as publicly financed investments. The budget department should be responsible for checking that the contracting authority has included its PPP liabilities in its MTEF and annual budget request.

Budgeting is more difficult where payments to or from government are variable, for example if they are linked to revenue or operating profit. In such cases, the flows to and from government over the budget period will have to be estimated.

The same considerations apply to the ex ante PPP MTEF and budget information as to the ex post GPFR. Consideration should be given to the fiscal impact, risks and sustainability of any commitments entered into as part of PPP. There should be a format for including the information within the budget process, e.g. the format in Table 3 below PPP.

Table 3: Sample Reporting Format for Direct Liabilities

PPP Project	**Description of Commitment**	**Total Project Investment Cost**	**Annual revenues/payments for the 3 budget years**				**Estimated present value of all future obligations**
			Current Year	Budget Year	MTEF Y2	MTEF Y3	As of current year
Toll Road BOT	Up-front capital subsidy during construction Duration X years Denominated in Y currency	N	N	N	N	N	N
Bus transport services PPP	Fees deliberately set below consumer's willingness to pay to keep user fees at a socially acceptable level Duration X years Denominated in Y currency	N	N	N	N	N	N
Hydroelectric Powerplant DBROT	Annual availability payment Duration X years Denominated in Y currency	N	N	N	N	N	N
Total		**N**	**N**	**N**	**N**	**N**	**N**

Adopted from "Implementing a Framework for Managing Fiscal Commitments from PPPs" by The Financial and Private Sector Development (FPD) Network–Investment Climate Global Practice Private Participation in Infrastructure and Social Sector Service Line and The World Bank Institute (WBI)

Budgeting for contingent liabilities within PPPs

Budgeting for contingent liabilities is not as straightforward since the timing and extent of exposure are often not known until the liability crystallises. A contingent liability is said to crystallise when the event envisaged happens, e.g. debtor in a guaranteed loan defaults.

Since contingent liabilities which crystallise are additional fiscal costs to the government, payments may be required unexpectedly and hence not included in the budget. Table 4 below provides a reporting format which enables both crystallised and uncrystallised liabilities to be tracked and monitored.

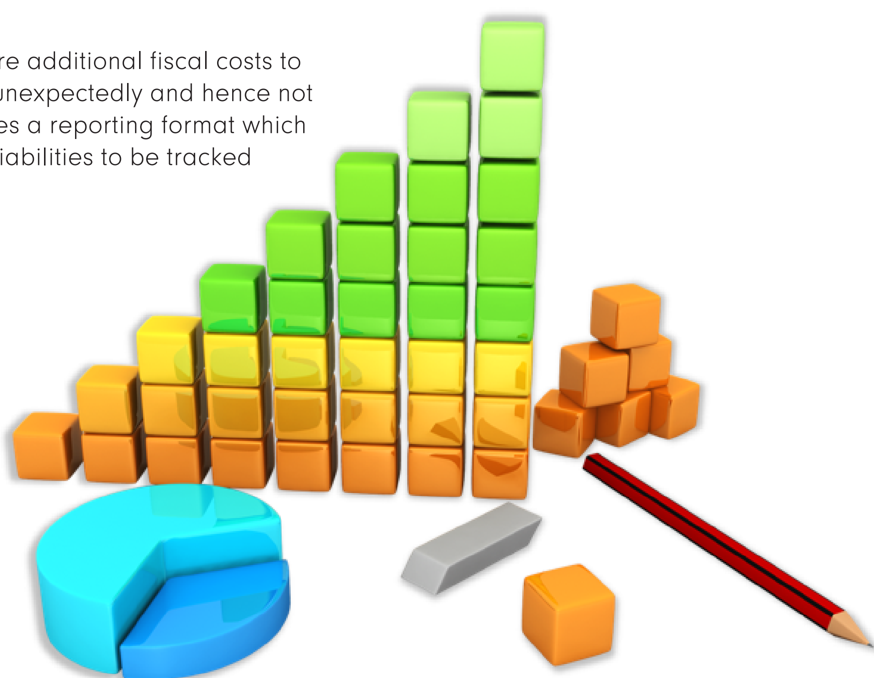


Table 4: Sample Reporting Format for Contingent Liabilities

PPP Project	**Toll Road BOT**	**Bus transport services PPP**	**Hydroelectric Powerplant DBROT**	**Total**
Description of Project	50 km. toll road in X District; 25 year contract dated 201x; Operational from 201Y	Provision of fleet of buses; 25 year contract dated 201x; Operational from 201Y	Design, construction and operation of powerplant in X State; 30 year contract dated 201x; Operational from 201Y	
Description of Contingent Liabilities	Revenue/Demand risk guarantee - Cash compensation if traffic/ revenue falls below minimum level specified in the contract	Termination payment commitment	Central government agrees to pay should government-owned off-taker (e.g., SOE) defaults as specified in the contract	N
Contingent liability (estimated)	N	N	N	N
Contingent liability (estimated)				
Current FY	N	N	N	N
Budget Year	N	N	N	N
MTEF Y2	N	N	N	N
MTEF Y3	N	N	N	N
NPV of future crystallised commitments	N	N	N	N

Adopted from "Implementing a Framework for Managing Fiscal Commitments from PPPs" by The Financial and Private Sector Development (FPD) Network—Investment Climate Global Practice Private Participation in Infrastructure and Social Sector Service Line and The World Bank Institute (WBI)

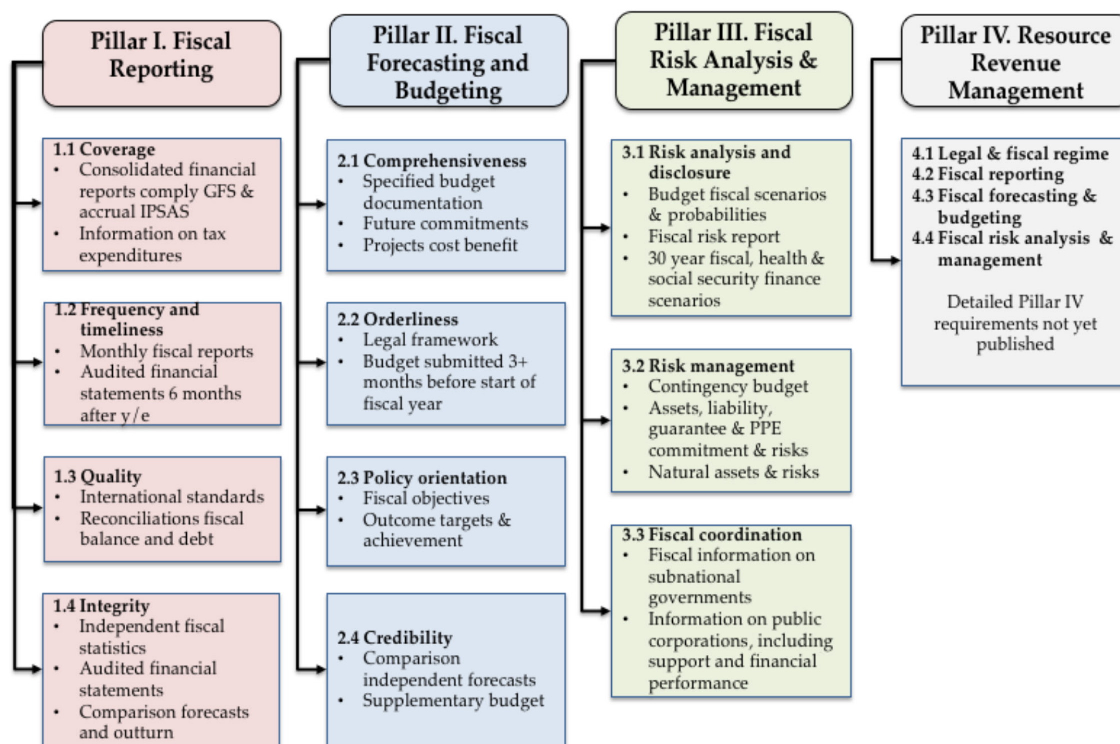
2.5.3 Budget execution reports

Budget execution reports should be published regularly by Federal and State governments. There are no rules prescribing the format of such reports. Usually such reports are cash based to enable comparison with the cash based budget. It is desirable that such reports should, as far as feasible, follow the format of the cash flows statement provided annually as part of the GPFR. It is also desirable that such budget execution reports include additional important information, e.g. on fiscal sustainability and fiscal risk.

2.5.4 IMF Code of Fiscal Transparency

The IMF Code of Fiscal transparency, updated in 2014, provides a wide ranging set of requirements for fiscal transparency. The 2018 Handbook provides detailed guidance. An overview of the requirements is provided in Figure 1 below. This framework should guide fiscal reporting.

Figure 1: IF Code of Fiscal Transparency



2.5.5 Debt sustainability analysis

The IMF and World Bank developed, in 2016, an analytic tool for assessing the PPP fiscal risk: PPP Fiscal Risk Assessment Model or **P-FRAM**[3]). This tool provides a comprehensive analysis of PPP risks in the context of macro-level fiscal data, and hence, an analysis of the total fiscal risk. P-FRAM identifies the different types of fiscal risks, how these are shared between government and the contractor, and puts such risks in the context of the fiscal indicators of the country.

The P-FRAM model envisages total PPP risks in a matrix as indicated in Table 5.

Table 5: P-FRAM risk matrix

Identification of risks	Allocation	Likelihood	Fiscal impact	Risk rating	Mitigation strategy	Priority actions
1. Government risks						
2. Construction risks						
3. Demand risks						
4. Operational and performance risks						
5. Financial risks						
6. Force majeure						
7. Material adverse government actions						
8. Change in law						
9. Rebalancing of financial equilibrium						
10. Renegotiation						
11. Contract termination						

[3] *https://www.imf.org/external/np/fad/publicinvestment/pdf/PFRAM.pdf*

P-FRAM provides a downloadable Excel based platform to assess key questions in relation to PPPs using the following sequence:

1. Who initiates the project?
2. Who controls the asset?
3. Who ultimately pays for the asset?
4. Does the government provide additional support to the contractor?

A Debt Sustainability analysis is carried out at the Federal level, but only appears to take account of fiscal risks that have crystallised, thereby reducing the value of the analysis. It should also be carried out at State level.

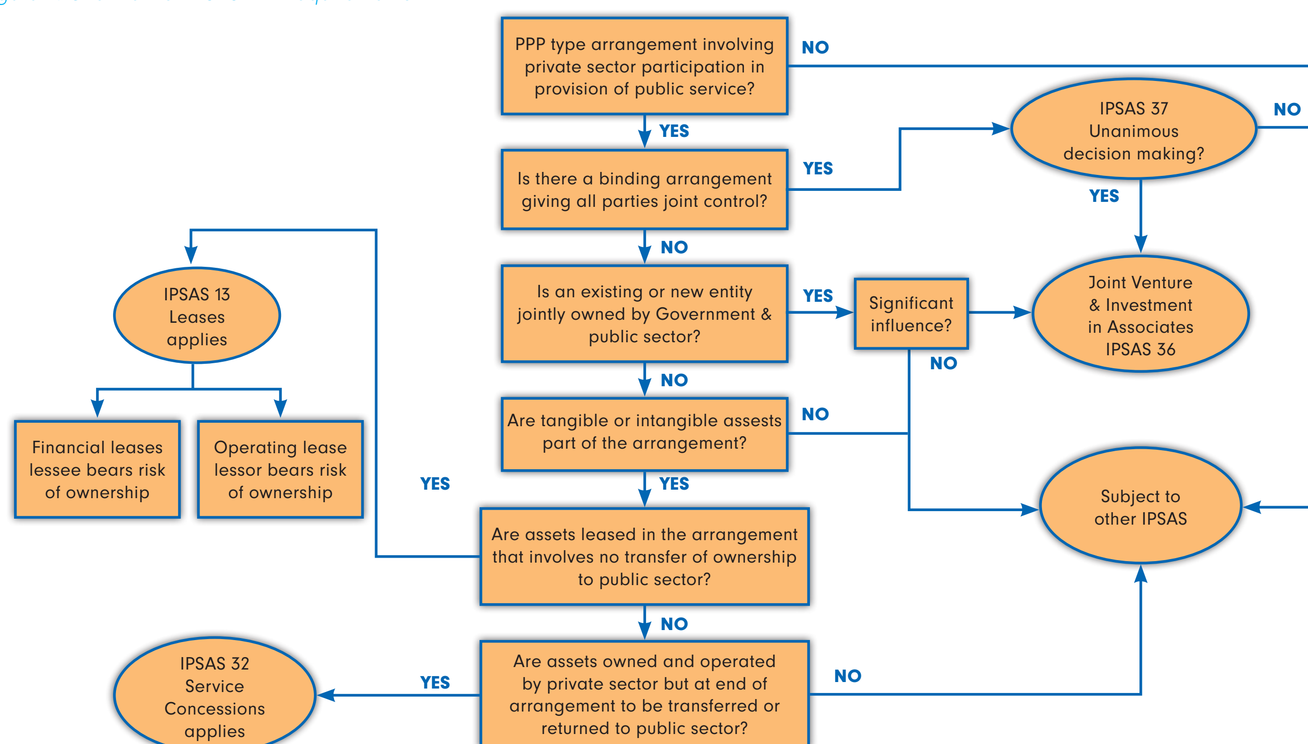
3 Choosing the appropriate financial reporting standard

The funding model for the ferry acquisition and operation should be determined by the requirements of Otrary State, not by financial reporting considerations. However, it is inevitable that how the information will be presented and disclosed will affect such decisions. In particular, "off balance sheet" funding can be attractive because it minimises disclosed borrowings.
This has also been an important driver in the development of financial reporting requirements. The objective has been to make financial reporting reflect the substance of transactions by including assets and related liabilities in the financial reports of the party which has control and assumes the risks of operation.

It remains the case that quite small adjustments in the contractual arrangements can determine whether an item is "on" or "off" balance sheet. Internationally major accounting firms are sometimes required to provide advice on the appropriate treatment of a particular PPP project because of the difficulty of deciding the appropriate IPSAS treatment in a particular set of circumstances.

The model in Figure 2 below summarises the main requirements. For clarity, a number of sub-options and special situations are omitted. However, this diagram alone should not be used to determine the appropriate accounting treatment. In every case a detailed study of the IPSAS wording and application guidance is essential to ensure the appropriate treatment and disclosure. Note also that the requirements in relation to the specific situations is further expanded for each of the options in the Case Study below.

Figure 2: Overview of IPSAS PPP requirements



4 The Case Study

The State of Otrary has a problem of transportation between its two major cities, Kwoimaria (the port) and Maba (the capital). The two cities each have a population of approximately 800,000 and are 15 kilometres apart. The road system and the rail link are both inadequate and in a bad state of repair.

Both cities are on a major river, though only Kwoimaria is a deep sea port. The planned solution is to acquire a high-speed ferry to link the two cities. Suitable jetty facilities already exist at both cities, so the only requirement is to acquire and operate two ferries. Two suitable vessels that are available have been identified. The cost of acquisition and moving the vessels to Kwoimaria will be N4.5 billion.

Once operational, annual revenues from passengers and freight are estimated at N 1.65 billion with operating costs (including depreciation) of N 0.8 billion, generating an annual surplus of N 0.85 billion. Fares and freight charges will all be paid in cash (or by bank transfer) with no credit period. This will enable prompt payment of operating expenses.

The two vessels and their maintenance will require specialist skills which are not presently available in Otrary. Either staff will have to be recruited or a company contracted to maintain and operate the vessels. At the end of 10 years, the vessels are expected to have reached the end of their useful lives with no significant residual value.

In addition, there are significant risks:

- The vessels may require refurbishment work which is not included in the estimated costs.
- Revenues may be above or below estimates because of, for example, changes in working patterns, alternative or new transport technologies.
- Operating costs may be higher or lower than anticipated because of, for example, higher labour costs and/or new technology, e.g. automated ticketing.

Despite the risks, the opportunities presented by the project are very considerable as the project will transform the economic potential of Otrary State, encouraging new investors and creating new employment opportunities.

The Government is considering five options for financing and operating the ferries.

1. **Traditional government funding:** the State Government of Otrary acquires the two ferries funded by the issue of State government bonds maturing in 10 years at an interest cost of 5% per annum. A sinking fund will be established for repayment of the bonds. The government will contract with a private sector company to manage, operate and maintain the two vessels. A special "Ferry Department" will be established within the Ministry of Transport to be responsible for all matters relating to the operation and management of the ferries, including the contracted-out services. This Ferry Department will receive revenues and prepare its own financial statements.

2. **Leasing:** As in (1) above, except that the government separately invites bids to acquire the vessels and lease to government for 10 years. At the end of the lease, the ferries are expected to have no value, but the government will have an option to acquire them for a nominal payment. The government will operate the ferries and collect revenues as in Option 1 above, separately contracting operational and management services. The "Ferry Department" will be established as in Option 1.

3. **Service concession assets:** The State Government invites bidders to be responsible for the acquisition and operation of the vessels for a period of 10 years. The operator will pay expenses and keep all revenues. At the end of 10 years, the ferries will have no value and will be handed over to government.

4. **Joint venture:** bidders are invited to form a joint venture (JV) company with the government. The JV will be financed by each party contributing N0.5 billion, with the balance obtained from issuing bonds (guaranteed by the Government) with an annual interest rate of 5% maturing in 10 years. The JV will acquire and operate the ferries, with any net profit or loss to be shared equally between the joint venture partners. The profits will be distributed equally to the joint venture partners.

5. **Service concession to private sector owners:** the government invites bids for companies for a 10-year concession to take complete responsibility for the building and operation of the ferries and to retain all profits. The successful bidder (the operator) will make a lump sum payment of N1.0 billion to government for the concession. At the end of the concession the government has the right to end or renew the concession. Under this option only, it is assumed that the vessels will have a value of N1 billion at the end of the 10-year period, when the vessels will belong to the operator and the government will have no option to acquire the vessels.

[9] IPSAS are issued by the IPSAS Board of the International Federation of Accountants
[10] IPSAS Conceptual Framework Chapter 4 papa 4.3

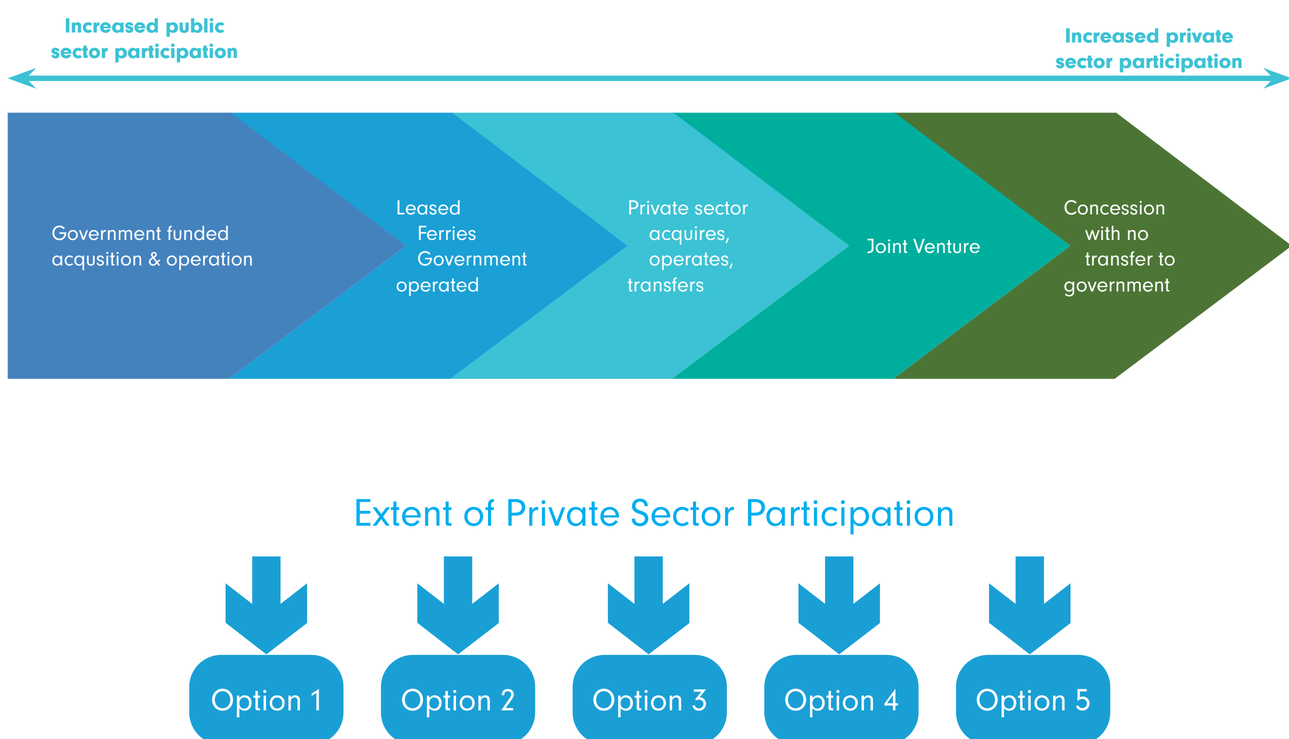
The State government wishes to know how each of the above options will be reflected in the various financial reports under IPSAS and GFS, as well as the impact on budgets, fiscal sustainability and risk. Also, what further information should be disclosed under the above and other requirements?

The financial statements of the Government of Otrary without the acquisition of the ferries are summarised in the Annex.

4.1 Classifying the PPP arrangements

The term "Public-Private-Partnership" encompasses a wide range of financial and operational arrangements that are described by a bewildering array of acronyms and abbreviations. However, it can be envisaged as a scale moving from high level public participation to high level private participation. This is illustrated in the context of the options described above, in Figure 3 below. Note that this only identifies the types of PPP arrangements in the options considered.

Figure 3: Taxonomy of PPP options



5 Financial Reporting under different Options

The options for funding and operating the vessels are considered with consequent reporting requirements in the following sub-sections.

Each situation is considered independently. It is assumed that the vessels are acquired on January 1, 20xx, and operating costs and revenues as indicated above are from that date. The government financial year is the calendar year.

5.1 Option 1: Government-funded and contracts for operational and management services

The traditional approach, not involving any PPP, is for the government to borrow and itself acquire and operate the ferries. This approach provides a benchmark against which other approaches can be compared. Because of the shortage of skills, management and operation of the ferries is contracted to a private sector organisation. This contracting of services does not in itself have any impact on financial reporting. The costs of the contract are simply part of the expenses of operations.

5.1.1 IPSAS

This is not a PPP, so none of the specific IPSAP PPP requirements identified in Figure 2 above apply. The transactions are subject to IPSAS requirements, and in particular the following IPSAS requirement will be of relevance:

- IPSAS 17 Property, Plant, and Equipment
- IPSAS 28-30 Financial Instruments

It is assumed that the vessels will be depreciated on a straight-line basis at 10% per annum. The impact on the financial statements is shown under Option 1 in the Annex. The impact on the financial statements is indicated below.

Impact summary end year 1 (Naira billion)	
Asset & liability on balance sheet?	YES
Cash flow increase/(decrease)	0.74
Increase/(decrease) operating surplus	0.63
Increase/(decrease net assets	5.13
Increase/(decrease) in liabilities	4.50

Additional information required by IPSAS

The notes to the financial statements must disclose:

- Identification of the class of assets and depreciation method and rates (IPSAS 17 para 88).
- Information that enables users of the financial statements to evaluate the significance of financial instruments for its financial position and performance – this will include the rate of interest, maturity date and any other special considerations relating to the loan to finance the acquisition of the vessels (IPSAS 30 para 10).

An Exposure Draft (ED 62) was issued by the IPSAS Board in August 2017 proposing various amendments to IPSAS 30. However, these changes will not affect the information in the financial statements in the annex or the disclosure requirements above in respect of the described loan.

Cash basis IPSAS financial reporting

The cash flow statement would be as under the accrual basis, below, and would be the only financial statement. There are no specific disclosure requirements in respect of the vessels or the loans, since these are not reported in the cash basis financial statements.

5.1.2 GFS reporting

Under GFS the Ferry Department would be treated as a "quasi-corporation". A quasi-corporation is defined in the GFS Manual 2014, para 2.33 (i) as *"an unincorporated enterprise owned by a resident institutional unit that has sufficient information to compile a complete set of accounts, that is operated as if it were a separate corporation, and whose relationship to its owner is effectively that of a corporation to its shareholders"*. The Department operating the ferries meets this definition and should therefore be excluded from the General Government Sector; instead it will be included with the Public Non-financial Corporations Sector and consolidated accordingly.

In the consolidated financial statements of the general government sector, the quasi corporation will be valued at its net asset value, i.e. the value of the vessels assuming no other assets or liabilities. The loan to pay for the vessels is a government liability, though it could be reallocated to the quasi-Corporation. Net income of government will be "withdrawals of income from quasi-corporations".

The above treatment has no overall impact on the public sector since the assets and liabilities in the Public Corporation Sub-sector exactly match and offset those in the General Government Sector. The result for the public sector as a whole will be as under IPSAS.

Therefore, in the consolidated financial statements of the public corporation sub-sector, treatment will be as above under IPSAS, though some of the classification descriptions will change, e.g. depreciation becomes "consumption of fixed capital".

The UN System of National Accounts (SNA) uses the same definitions as the IMF GFS. Therefore, the Ferry Department will be treated as a quasi-corporation as above. There is no consolidation within the SNA; the information will be recorded by the institutional unit and then aggregated by Sector. Valuations will use the same basis as GFS.

5.1.3 Fiscal sustainability and risk

With government funding, the government assumes all risks and benefit from the ferry operations. The government needs to ensure it has funds to repay the loan of N4.5 billion at the end of 10 years. If the government invests N0.34 billion per year at 5% in sinking fund investments, the end value would be sufficient to repay the loan of N4.5 billion.

The government also assumes operational risks, the risks of exceptional maintenance costs and of revenue shortfalls. On the other hand, the government benefits from operational profits and from any above estimate revenues.

There are no contingent liabilities.

5.1.4 MTEF and budget impact

Assuming cash budgeting and that the sinking fund represents actual external investments, the impact on the MTEF budget over the next 10 years will be exactly the same as the impact on the cash flow for the year 20xx as set out in the cash flow statement in the Annex. In year 10, the sinking fund assets will be sold and the loan repaid from the proceeds.

5.2 Option 2: Leasing of ferries

Under the second option, the Government of Otrary State leases the ferries from a private sector entity. The financial reporting of leases is addressed in IPSAS 13, which identifies two types of leases as described below:

1. Financial lease: transfers substantially all of the risks and rewards of ownership of the asset to the lessee; and

2. Operating lease: lessor retains substantially all of the risks and rewards of ownership of the asset.

The arrangements described for Option 2 are clearly a finance lease, since the Government accepts all of the operating costs and risks and acquires the vessels at a fixed (nominal) cost at the end of the lease.

5.2.1 IPSAS

Finance lease

IPSAS 13 defines the IPSAS reporting methodology for leases. The rules are summarised as follows:

1. The leased asset is treated as an asset of lessee (the State of Otrary);
2. The lease obligations are treated as a financial liability of the lessee (the State of Otrary);
3. The leased asset is depreciated as any other asset and this is charged as an expense; and
4. Lease payments are apportioned between a finance charge (interest) and a reduction of the outstanding financial liability.

The calculation of the apportionment of the lease payments requires the calculation of the implicit discount rate. This is the discount rate that makes the sum of the discounted value of the lease payment plus the discounted value of the residual payment equal to the initial value of the asset.

Under Option 2 it is assumed that the lease is for 10 years, payments are made at the end of each year of N0.7 billion, and the ferries have no residual value at the end of the lease. The calculation shown in the Annex indicates that the implicit rate of interest is 8.96%.

The annual lease payments are divided so that for each year, the implicit interest rate is applied to the residual balance to determine the interest element; the balance is repayment of principal. This is applied to the illustrative financial statements shown in the Annex for Option 2.

Operating lease

Although not applicable in this example, if the arrangement was an operating lease then neither the asset of the vessels nor the lease liability would be recognised in the financial reports of the Government of Otrary or the Ferry Department. The lease payments would be treated as an expense in the Statement of Financial Performance as such payments become due.

Impact in financial reports under accrual IPSAS

As this is a financial lease, the asset and liability are regarded as belonging to government. Under ED64 this treatment will apply to all leases (see below). The impact is summarised as follows:

Impact summary end year 1 (Naira billion)	
Asset & liability on balance sheet?	YES
Cash flow increase/(decrease)	0.60
Increase/(decrease) operating surplus	0.45
Increase/(decrease net assets	4.65
Increase/(decrease) in liabilities	4.20

Since the lease payments will result in a nil liability at the end of the period, there is no requirement for a sinking fund.

Additional information required by IPSAS

The following information must be disclosed (IPSAS 13 para 14):

- For each class of assets net carrying amount at reporting date
- Reconciliation between future lease payments and their present value
- Future lease payments due as follows:
  - Within one year
  - Between 1 and 5 years
  - Later than 5 years
- Description of leasing arrangements, including:
  - Existence and terms of any renewal or purchase options, and
  - Any restrictions imposed by lease arrangements.

The above requirements are in addition to general disclosure requirements under IPSAS 17 see Option 1 above) and requirements as to impairment of cash or non-cash generating assets.

Changes to lease accounting proposed in Exposure Draft 64

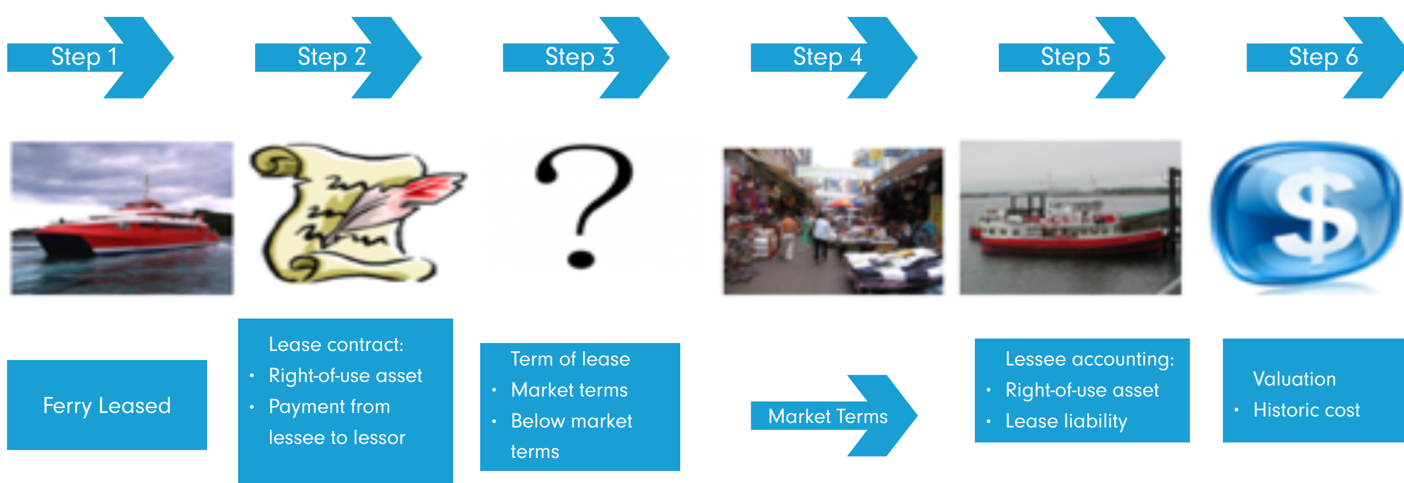
In January of 2018 the IPSAS Board issued an exposure draft (ED64) for future lease accounting. The proposals in ED64 are based on the new private sector International Financial Reporting Standard (IFRS) 16 for lease accounting. ED64 has not as yet been approved by the IPSAS Board, but it is likely that it will and that a new lease IPSAS will be issued during 2019. If adopted the new IPSAS is likely to apply to accounting periods beginning in 2020 and later.

In summary, the proposals in ED64:

- Remove the distinction between operating and finance lease;
- Identifies a "right-of-use" asset distinct from the underlying asset;
- Transfers the right-of-use asset from the lessor to the lessee;
- Creates a liability for the right of use.

The IPSAS Board has created a useful model to illustrate the new procedure, amended below to refer to the ferry situation in this case study.

Figure 4: Exposure draft 64 application steps



In practice, the result for Option 2 as described above will be the same as under IPSAS 13 for a Finance Lease except that the leased asset will be replaced by the right-of-use asset.

Cash Basis IPSAS

Under the cash basis IPSAS, the only items recognised are the lease payments, revenues and costs from operating the ferries.

5.2.2 GFS Reporting

The same comments apply as under Option 1 that the Ferry Department is a quasi-corporation, with same rules as to treatment in financial reports under GFS and UN SNA.

GFS and SNA identify three types of leases:

- Finance leases;
- Operating leases; and
- Resource leases (which relate to natural resources and are therefore not relevant to the situation described).

As with IPSAS, the GFS distinction between finance and operating leases is based on the concept of risk – does the lessor or the lessee bear the risks and rewards of ownership? In most cases the resulting classification of leases is likely to be the same as with IPSAS 13.

Under Option 2, since the ferries are not expected to have any residual value at the end of the lease, it will be classified under GFS as a financial lease. Also, since the ferries have only just been acquired, cost will be a good indicator of market value. Therefore, the accounting and financial reporting under GFS will be exactly the same as under IPSAS 13.

Fiscal sustainability and risk

Under a financial lease, the government continues to bear all of the risks and also potential benefits from the ferry operations. The requirement to repay the loan is obviated by the lease arrangement, so fiscal sustainability is ensured.

5.2.3 MTEF and budget impact

The lease cost will be a cash flow that will have to be factored into the budget as an annual commitment, reducing the fiscal space available for other expenditure. On the other hand, the anticipated operating surplus will increase funds available.

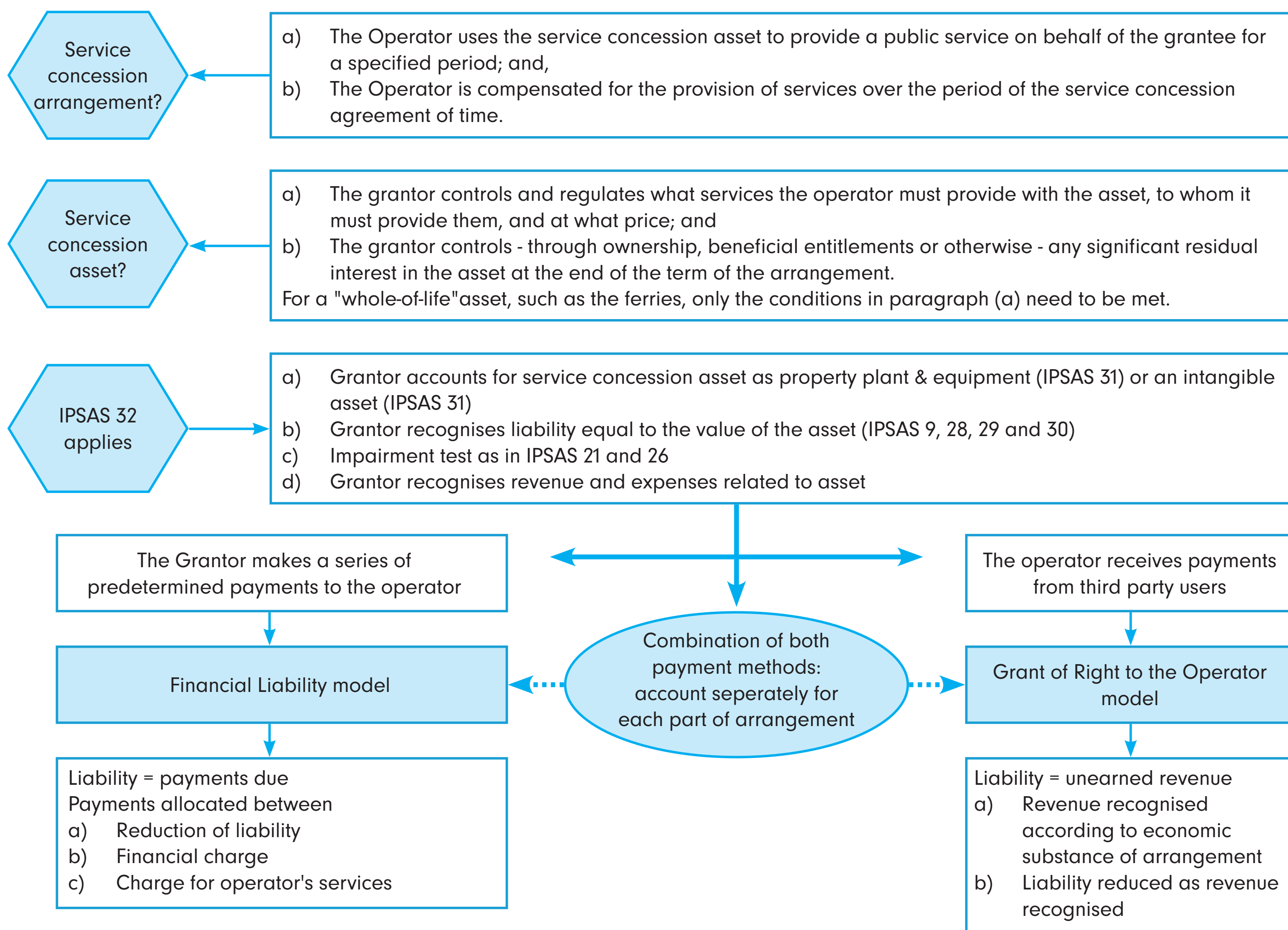
5.3 Option 3: Service concession assets

The arrangement under Option 3 follows within the ambit of IPSAS 32 "Service Concession Arrangements: Grantor". IPSAS 32 was released in 2011 to address the issue of accounting for PPP type arrangements that involve private sector acquisition and operation of assets on behalf of a public sector entity. These are described as service concession arrangements. IPSAS 32 mirrors the International Financial Reporting Interpretations Committee pronouncement 12 (IFRIC 12) which deals with the reporting of such arrangements by private sector entities (the grantee).

A service concession arrangement is defined as a binding arrangement between grantor and operator in which the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time, and the operator is compensated for the provision of services over the period of the service concession agreement.

IPSAS 32 envisages two parties: the Grantor (Government of Otrary) and the Operator (the PPP grantee). A service concession arrangement is defined as a binding arrangement between grantor and grantee. The application of IPSAS 32 requires a series of decisions as summarised in the diagram below.

Figure 5: IPSAS 32 decision stages



Note that the above model is based on the concept of control.

The procedures are further explained as follows:

- **Financial liability model:** The calculation is the same as for a finance lease, but with an additional element of the charges for services provided by the operator.

- **Grant of right to the operator model:** the term "economic substance" is not explained in the IPSAS but is clarified in the examples to the IPSAS as a straightforward allocation between the costs and reduction of liability.

If IPSAS 32 applies and the operator:

- Constructs or provides an asset, or

- Upgrades an asset provided by the grantor.

Then:

1. Any asset acquired by the Operator, or the upgraded value of assets transferred from the Grantor, and provided such assets are to be eventually transferred to the Grantor, are treated as assets of the Grantor (the Government) - not the Operator.

2. The Grantor will recognise a liability to the Operator of an equal amount.

The effect of this requirement is to bring all PPP assets onto the Government's balance sheet (referred to in IPSAS as the Statement of Financial Position) and to create a liability of the government, and to bring related costs into the operating statement (referred to as the Statement of Financial Performance) of government, as in Table 6.

Table 6: IPSAS 32 GPFR

Statement of Financial Position (Balance Sheet)	
Asset (built or upgraded)	X
Financial liability	X

Statement of Financial Performance (Operating Statement)	
Depreciation	X
Interest	X
Cost of services	X

The measurement of financial liability depends on how the operator is rewarded under the PPP as below:

1. Financial liability model - grantor makes a series of payments to the operator (a financial liability of the grantor accounted according to Financial Instrument under IPSAS 28 - 30), or
2. Grantor grants the operator a right to earn revenues form third party users (grantor recognises a liability for any portion of the revenue not yet earned).

A financial asset occurs when the grantor is entitled to receive payments from the PPP. IPSAS 28-30[4]) apply as this is a financial asset.

The disclosure requirements under IPSAS 32 are extensive. In respect of each PPP, the government must disclose in the notes to the financial statement:

- Description of the PPP
- Significant terms
- Major rights and obligations under the PPP

Summary: IPSAS 32 is applicable to many of PPPs in Nigeria. The effect is that the assets and liabilities of such PPPs must be consolidated within the Government financial reports, and substantial information provided about each PPP in the notes to the GPFR.

Applying IPSAS 32 to Option 3

1. This is a service concession arrangement because (a) the operator uses the ferries to provide a public service for a specified period, and (b) the operator is compensated by the revenue from ferry passengers.
2. The government controls the services to be provided to passengers and the fares to be paid.
3. The ferries are service concession assets since they are to be transferred to government at the end of the concession.
4. The Government grants the right to the operator to receive the fare revenues, so the Grant of Right to the Operator Model applies.

The fair value of the service concession asset is the cost of the ferries, N4.5 billion. This is also the financial liability for unearned revenue by the Operator. Since there is no residual value, the depreciation equals the reduction in liability, as summarised below.

Impact summary end year 1 (Naira billion)	
Asset & liability on balance sheet?	YES
Cash flow increase/(decrease)	-
Increase/(decrease) operating surplus	-
Increase/(decrease net assets	4.05
Increase/(decrease) in liabilities	4.05

Additional information required by IPSAS

The following is required by IPSAS 32 para. 32:

a) Description of the service concession arrangement;

b) Significant terms of the arrangement that may affect the amount, timing and certainty of cash flows;

c) Nature and extent of:
- Right to use specified assets;
- Services to be provided by operator;
- Carrying amount of service concession assets;
- Right to receive assets at the end of the concession agreement;
- Renewal and termination options;
- Other rights and obligations; and
- Obligations to provide operator with access to service concession assets or other revenue generating assets.

The above requirements are in addition to disclosure requirements under other IPSAS, e.g. IPSAS 17, 29, etc.

Cash Basis IPSAS

As there are no cash flows by the Grantor, cash-based financial statements will have nothing to report.

[4] Note that IPSAS 28-30 dealing with financial instruments are currently the subject of an Exposure Draft and are likely to be revised or replaced

5.3.2 GFS Reporting

The reporting requirements under GFS and SNA are the same as under IPSAS 32, except the ownership of assets is determined by who bears the risks of ownership rather than by who controls the asset. In most cases this will lead to the same categorisation of service concession assets, but the approach is conceptually different.

5.3.3 Fiscal sustainability and risk

The arrangement is fiscally sustainable because the government incurs no obligations under the arrangement. Operational and revenue risks are borne by the Operator provided the operator continues to honour its commitments.

5.3.4 MTEF and budget impact

This option has no budget impact because the operator pays all expenses and retains all of the profit.

5.4 Option 4: Joint venture

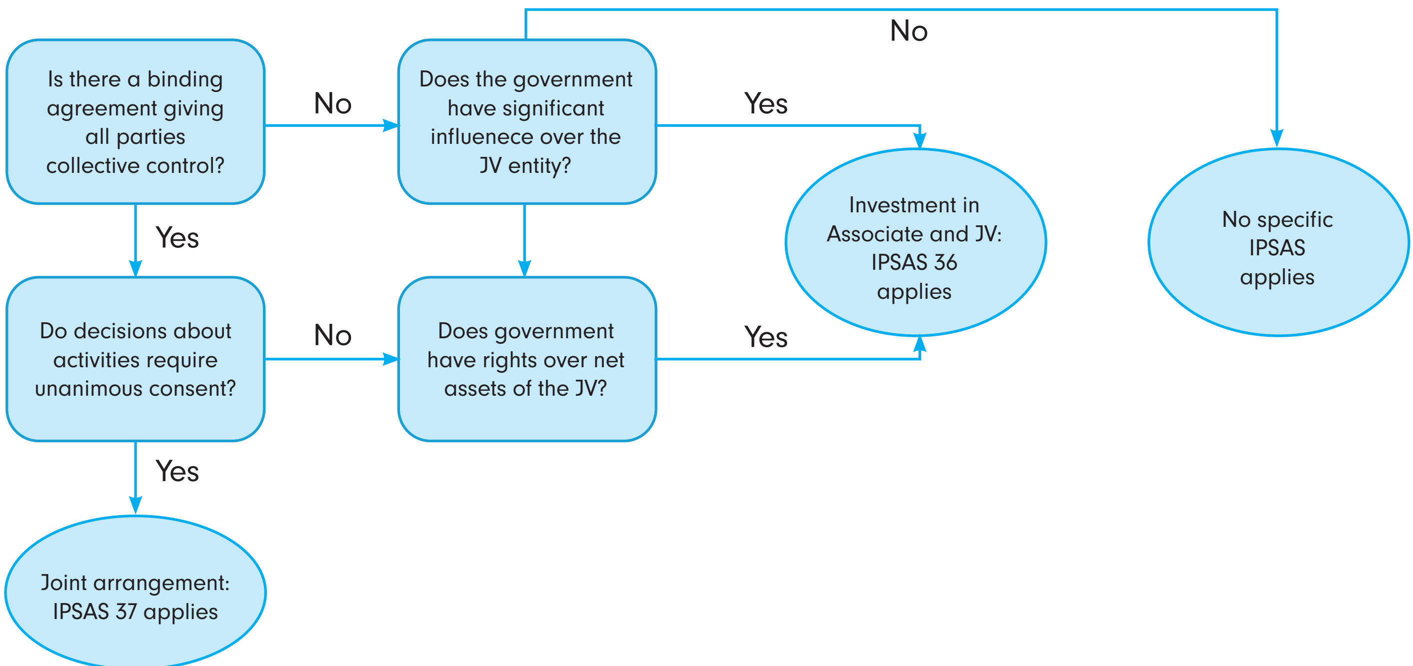
5.4.1 IPSAS

IPSAS distinguish between a joint venture and a joint arrangement. IPSAS 37 uses the following definitions:

- **Joint arrangement:** two or more parties have joint control and unanimous consent is required about relevant activities.
- **Joint venture (JV):** two or more parties have joint control and rights to the net assets of the joint venture, but there is no requirement for unanimous consent, i.e. one part becomes the executive director.

The complexity is further increased in that where a joint arrangement exists that does not fully meet the requirements of IPSAS 37, then IPSAS 36 Investment in Associates and Joint Ventures may apply. But IPSAS 36 is broader in that it also includes investments where the investor has significant influence, but which are not joint arrangements. The decision tree below summarises the decision stages.

Figure 6: Joint arrangement, joint venture or investment in associate?



Notes:

1. A joint venture usually, but not necessarily, involves the creation of a legal entity – as Special Purpose Vehicle (SPV), e.g. a limited company.

2. If the government has a controlling interest in a joint venture, then it becomes a subsidiary and must be accounted for in accordance with IPSAS 35 Consolidated Financial Statements.

The decision as to whether IPSAS 36 or 37 applies is a judgement decision and requires consideration of both legal arrangements and also the substance of the arrangement. Reference should be made to the exact wording of the IPSAS.

- **Control** is defined in IPSAS 35 Consolidated Financial Statements. In summary control exists where the controlling entity (the Government) receives variable benefits (e.g. money) as a result of its control of the JV entity and can affect the nature and amount of such benefits through its control of the JV. In practice this would usually mean a majority equity interest and/or control over the appointment of Directors. Controlled entities are consolidated in the government GPFR in accordance with IPSAS 35. The consolidation process was summarised above.

- **Significant influence** is defined in IPSAS 36 as the power to participate in (but not control) financial and operating policy decisions of the JV entity. If significant influence exists, then JV entity is treated as an associate entity under IPSAS 35.

Notes:

1. The rules in IPSAS 35 and 36 apply to the consolidated GPFR even if the JV Entity is regarded as being a for profit entity and prepares financial statements in accordance with IFRS.

2. The above IPSAS rules means that it is possible a JV entity could be included in consolidated GPFR by two or more controlling entities or entities with significant influence. This contrasts with statistical reporting systems where symmetry is fundamental, and any financial asset or liability must exactly match the opposite amount as reported by other entities within the country.

The impact of applying IPSAS 36 to the PPP for the financial statements of the Government of Otrary are summarised below.

Impact summary end year 1 (Naira billion)	
Asset & liability on balance sheet?	YES
Cash flow increase/(decrease)	(0.16)
Increase/(decrease) operating surplus	0.34
Increase/(decrease net assets	0.34
Increase/(decrease) in liabilities	-
Contingent liability	0.35

In this example there is no impact on the net investment because the whole of the profit of the JV company is paid out as a dividend.

Note also that there is a contingent liability in respect of the loan guarantee provided by government. This would be disclosed in the Notes to the financial statements.

Additional information required by IPSAS

There are no disclosure requirements in IPSAS 36 additional to those in other IPSAS.

Cash Basis IPSAS

Under the Cash Basis IPSAS, the investment in, and dividend from, the JV company would be disclosed. No other information is required.

5.4.2 GFS Reporting

GFS defines a joint venture as a situation where a "*corporation, partnership, or other institutional unit in which, legally, each party has joint control over the activities of the joint venture unit*" (Appendix 9 Glossary). GFS does not have any specific rules for valuing the investment in a joint venture; since no marked value is available it may be estimated. In practice, the IPSAS equity method would provide the best estimate available.

An issue for GFS is whether a joint venture entity operating as a market producer (as under Option 4) is classified as a public corporation or private corporation. This will be determined by whether it is controlled by the Government or by the private sector investor. This will initially be decided by equity share; if this is equal (as under Option 2) other factors will be taken into account:

- Who appoints the officers;
- Legal and contractual provisions;
- Financing;
- Risk exposure.

The result of this analysis will determine whether the JV entity forms part of the public sector.

5.4.3 Fiscal sustainability and risk

This arrangement is fiscally sustainable because the accumulated depreciation will be more than sufficient (assuming it continues to be retained and invested) to repay the loan at the end of 10 years. However, fiscal risk increased by the contingent liability of the loan guarantee, as well as by the government's participation in any potential losses, form the operation of the ferries.

5.4.4 MTEF and budget impact

In the MTEF and budget, the impact will be Government's share of revenues. However, the potential fiscal risks and requirement for a sinking fund should also be recognised.

5.5 Option 5: Private sector

5.5.1 IPSAS

An arrangement whereby the government grants a concession, but has no rights over the assets involved, does not fall within the ambit of IPSAS 32. There is therefore no requirement to show the assets of the concession in the balance sheet of government.

In other respects, the arrangement is treated in the same way as any other transactions according to the relevant IPSAS. The lump sum payment from the concessioner to the Government will be treated as fees in advance and taken to revenue over the life of the concession.

The results are shown in the Annex. A summary of the impact is below.

Impact summary end year 1 (Naira billion)	
Asset & liability on balance sheet?	NO
Cash flow increase/(decrease)	1.00
Increase/(decrease) operating surplus	0.10
Increase/(decrease net assets	1.00
Increase/(decrease) in liabilities	0.90

The key point is that as a result of the Government having no residual rights over the ferries there is no requirement to show the ferries as a balance sheet asset – the whole arrangement becomes off balance sheet (other than the fees in advance).

Additional information required by IPSAS

The general IPSAS disclosure requirements apply. The treatment of advance fees should be disclosed as an accounting policy (IPSAS 3) and the detail provided in a Note to the Financial Statements (IPSAS 1).

Cash Basis IPSAS

Under cash accounting, the fee in advance will be shown as cash inflow. The notes should provide an explanation of the concession arrangement and fees in advance.

5.5.2 GFS Reporting

The treatment under GFS and macroeconomic statistics will be as under IPSAS.

5.5.3 Fiscal sustainability and risk

Since the fees have been received in advance there is no impact on fiscal sustainability.

Under this arrangement the whole of the risk is transferred to the Operator. The only risk to the Government is if the operator does not honour its obligations, but as fees have been received in advance the government is protected against this eventuality.

5.5.4 MTEF and budget impact

Option 5 generates a significant cash inflow in year 1. There are no other cash flows or fiscal risk to be taken into account until the end of year 10, when a decision will have to be made on future ferry operations.

Annex 1: IPSAS and RPGs in issue at November 2018

IPSAS 1	Presentation of Financial Statements
IPSAS 2	Cash Flow Statements
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors
IPSAS 4	The Effects of Changes in Foreign Exchange Rates
IPSAS 5	Borrowing Costs
IPSAS 6	Consolidated financial statements [WITHDRAWN]
IPSAS 7	Investments in Associates [WITHDRAWN]
IPSAS 8	Interests in Joint Ventures
IPSAS 9	Revenue from Exchange Transactions
IPSAS 10	Financial Reporting in Hyperinflationary Economies
IPSAS 11	Construction Contracts
IPSAS 12	Inventories
IPSAS 13	Leases
IPSAS 14	Events after the Reporting Date
IPSAS 15	Financial Instruments: Disclosure and Presentation [WITHDRAWN]
IPSAS 16	Investment Property
IPSAS 17	Property, Plant, and Equipment
IPSAS 18	Segment Reporting
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets
IPSAS 20	Related Party Disclosures
IPSAS 21	Impairment of Non-Cash-Generating Assets
IPSAS 22	Disclosure of Financial Information about the General Government Sector
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)
IPSAS 24	Presentation of Budget Information in Financial Statements
IPSAS 25	Employee Benefits
IPSAS 26	Impairment of Cash-Generating Assets
IPSAS 27	Agriculture
IPSAS 28	Financial Instruments: Presentation
IPSAS 29	[Withdrawn]
IPSAS 30	Financial Instruments: Disclosures
IPSAS 31	Intangible Assets

IPSAS 32	Service Concession Arrangements: Grantor
IPSAS 33	First-time Adoption of Accrual Basis International Public Sector Accounting Standards
IPSAS 34 -	Separate Financial Statements
IPSAS 35	Consolidated Financial Statements
IPSAS 36	Investments in Associates and Joint Ventures
IPSAS 37	Joint Arrangements
IPSAS 38	Disclosure of Interests in Other Entities
IPSAS 39	Employee benefits
IPSAS 40	Public sector combinations
IPSAS 41	Financial Instruments

RPG 1	Reporting on the Long-Term Sustainability of an Entity's Finances
RPG 2	Financial Statement Discussion and Analysis
RPG 3	Reporting Service Performance
Cash Basis IPSAS—Financial Reporting Under the Cash Basis of Accounting	

Annex 2: Case Study Financial Statements

Note: all figures are in Naira billions.

The following are not included in the financial statements:

- Budget comparison
- Accounting policies
- Notes to the financial statements except for note on non-current assets
- Comparative figures other than for statement of financial position.

Financial statements without ferries

Statement of financial performance for year ended December 31, 20xx		
Revenue	**Current year**	**Previous year**
Tax	95.0	*Not shown*
Grants	7.0	
Other		
Property income	3.0	
Interest	4.0	
Dividends	10.0	
Total revenue	**119.0**	
Expenditure		
Employee compensation	70.0	
Use of goods and services		
Lease payment	-	
Management services	-	
Depreciation	10.0	
Other	25.0	
Subsidies to government corporations	-	
Interest paid	5.0	
Total expenses	**110.0**	
Net operating surplus	**9.0**	
Operations	**Current year**	**Previous year**
Operating surplus	9.0	*Not shown*
Add back:		
Depreciation	20.0	
Inc in receivables	(2.0)	
Inc in payables	3.0	
Net cash flow from operations	**30.0**	
Investing		
Land & buildings	(5.0)	
Property plant & equipment	(15.0)	
Investments	(3.0)	
Net cash flow from investing	**(23.0)**	
Financing		
Decrease in loans repayable in 12 months	(2.0)	
Decrease in loans repayable after 12 months	(2.0)	
Net cash flow from investing	**(4.0)**	
Total net cash flow	**3.0**	
Cash at start of year	12.0	
Cash at end of year	**15.0**	

Statement of changes in net equity for the year ended December 31, 20xx		
	Current year	Previous year
Opening net assets	194.0	*Not shown*
Surplus for year	9.0	
Closing net assets	**203.0**	

Extract from notes: movement on non-current assets for the year ended December 31, 20xx				
Non-current assets	Land & buildings	Property,	Investments	Total
Cost or valuation				
Balance at start of year	250.0	80.0	27.0	357.0
Invested	5.0	15.0	3.0	23.0
Balance at end of year	255.0	95.0	30.0	380.0
Accumulated depreciation/amortisation				
At start of year	95.0	35.0	-	130.0
Charge in year	10.0	10.0	-	20.0
Balance at end of year	105.0	45.0	-	150.0
Net book value				
At start of year	155.0	45.0	27.0	227.0
At end of year	150.0	50.0	30.0	230.0

Financial Statements: Option 1 - government funding

Statement of financial performance for year ended December 31, 20xx			
Revenue	Without vessels	Impact vessels	With vessels
Tax	95.00		95.0
Grants	7.00		7.0
Other (ferry revenues)		1.65	1.7
Property income	3.00		3.0
Interest	4.00		4.0
Dividends	10.00		10.0
Total revenue	**119.00**	**1.65**	**120.65**
Expenditure			
Employee compensation	70.00		70.0
Depreciation	10.00	0.45	10.5
Management services	25.00	0.35	25.4
Interest paid	5.00	0.23	5.2
Total expenses	**110.00**	**1.03**	**111.03**
Net operating surplus/(deficit)	**9.00**	**0.63**	**9.63**

Statement of financial performance for year ended December 31, 20xx				
Assets	**Without vessels**	**Impact vessels**	**With vessels**	**Previous year**
Current assets				
Receivables	10.00		10.00	8.00
Cash and cash equivalent	15.00	0.74	15.74	12.00
Non-current assets			-	
Land and buildings	150.00		150.00	155.00
Property, plant and equipment	50.00	4.05	54.05	45.00
Investments	30.00	0.34	30.34	27.00
Total assets	255.00	5.13	260.13	247.00
Liabilities				
Current liabilities				
Accounts payable	15.00		15.00	12.00
Loans repayable within 12 months	7.00		7.00	9.00
Non-current liabilities			-	
Loans repayable beyond 12 months	30.00	4.50	34.50	32.00
Total financial liabilities	52.00	4.50	56.50	53.00
Net assets/(liabilities) = net equity	203.00	0.63	203.63	194.00

Financial Statements: Option 1 - government funding (cont'd)

Cash Flow Statement for year ended December 31, 20xx			
Operations	**Without vessels**	**Impact vessels**	**With vessels**
Operating surplus	9.00	0.63	9.63
Add back:			
Depreciation	20.00	0.45	20.45
Inc in receivables	(2.00)		(2.00)
Inc in payables	3.00		3.00
Net cash flow from operations	**30.00**	**1.08**	**31.08**
Investing			
Land & buildings	(5.00)		(5.00)
Property plant & equipment	(15.00)	(4.50)	(19.50)
Investments (inc sinking fund investments)	(3.00)	(0.34)	(3.34)
Net cash flow from investing	**(23.00)**	**(4.84)**	**(27.84)**
Financing			
Increase/(decrease) in loans repayable in 12 months	(2.00)		(2.00)
Increase/(decrease) in loans repayable after 12 months	(2.00)	4.50	2.50
Net cash flow from investing	**(4.00)**	**4.50**	**0.50**
Total net cash flow	3.00	0.74	3.74
Cash at start of year	12.00		12.00
Cash at end of year	15.00		15.74

Statement of Changes in Net Equity for the year ended December 31, 200xx			
	Without vessels	**Impact vessels**	**With vessels**
Opening net assets	194.00	-	194.00
Surplus for year	9.00	0.63	9.63
Closing net assets	203.00	0.63	203.63

Extract from notes: movement on non-current assets for the year ended December 31, 20xx					
Description	Land & buildings	Vessels	Property, plant & Equipment	Investments	Total
Cost or valuation					
Balance at start of year	250.00	-	80.00	27.00	357.00
Invested	5.00	4.50	15.00	3.00	27.50
Balance at end of year	255.00	4.50	95.00	30.00	384.50
Accumulated depreciation/amortisation					
At start of year	95.00	-	35.00	-	130.00
Charge in year	10.00	0.45	10.00	-	20.45
Balance at end of year	105.00	0.45	45.00	-	150.45
Net book value					
At start of year	155.00	-	45.00	27.00	227.00
At end of year	150.00	4.05	50.00	30.00	234.05

Workings:			
Depreciation vessels	Cost	Rate	Amount p.a.
	4.50	10%	0.45

Interest on loan to pay for vessels	Borrowings	Rate	Amount
	4.50	5%	0.23

Sinking fund	
Annual investment	0.34
Interest rate	5%
Period	10
End value	4.50

Financial Statements: Option 2 - leasing

Statement of financial performance for year ended December 31, 20xx			
Revenue	**Without vessels**	**Impact vessels**	**With vessels**
Tax	95.00		95.0
Grants	7.00		7.0
Other (ferry revenues)		1.65	1.7
Property income	3.00		3.0
Interest	4.00		4.0
Dividends	10.00		10.0
Total revenue	**119.00**	**1.65**	**120.65**
Expenditure			
Employee compensation	70.00		70.00
Use of goods and services			-
Depreciation	10.00	0.45	10.45
Other	25.00	0.35	25.35
Lease - interest element		0.40	0.40
Interest paid	5.00	-	5.00
Total expenses	**110.00**	**1.20**	**111.20**
Net operating surplus/(deficit)	**9.00**	**0.45**	**9.45**

Statement of financial position at December 31, 20xx				
Assets	**Without vessels**	**Impact vessels**	**With vessels**	**Previous year**
Current assets				
Receivables	10.00		10.00	8.00
Cash and cash equivalent	15.00	-	15.60	12.00
Non-current assets			-	
Land and buildings	150.00		150.00	155.00
Property, plant and equipment	50.00	4.05	54.05	45.00
Investments	30.00		30.00	27.00
Total assets	255.00	4.05	259.65	247.00
Liabilities				
Current liabilities				
Accounts payable	15.00		15.00	12.00
Loans repayable within 12 months	7.00		7.00	9.00
Non-current liabilities			-	
Lease liability		4.20	4.20	
Loans repayable beyond 12 months	30.00		30.00	32.00
Total financial liabilities	52.00	4.20	56.20	53.00
Net assets/(liabilities) = net equity	203.00	(0.15)	203.45	194.00

Financial Statements: Option 1 - government funding (cont'd)

Cash Flow Statement for year ended December 31, 20xx			
Operations	**Without vessels**	**Impact vessels**	**With vessels**
Operating surplus	9.00	0.45	9.45
Add back:			
Depreciation	20.00	0.45	20.45
Inc in receivables	(2.00)		(2.00)
Inc in payables	3.00		3.00
Net cash flow from operations	**30.00**	**0.90**	**30.90**
Investing			
Land & buildings	(5.00)		(5.00)
Property plant & equipment	(15.00)	(4.50)	(19.50)
Investments (inc sinking fund investments)	(3.00)	(0.34)	(3.00)
Net cash flow from investing	**(23.00)**	**(4.50)**	**(27.50)**
Financing			
Increase/(decrease) in loans			(1.68)
repayable in 12 months	(2.00)	0.32	
Increase/(decrease) in loans	(2.00)	4.50	2.50
repayable after 12 months	(2.00)	3.88	1.88
Net cash flow from investing	**(4.00)**	**4.20**	**0.20**
Total net cash flow	3.00	0.60	3.60
Cash at start of year	12.00		12.00
Cash at end of year	15.00		15.60

Statement of Changes in net equity for the year ended December 31, 200xx			
	Without vessels	**Impact vessels**	**With vessels**
Opening net assets	194.00	-	194.00
Surplus for year	9.00	0.45	9.45
Closing net assets	203.00	0.45	203.45

Financial Statements: Option 2 - leasing (cont'd)

Extract from notes: movement on non-current assets for the year ended December 31, 20xx					
Description	Land & buildings	Lease Vessels	Property, plant & Equipment	Investments	Total
Cost or valuation					
Balance at start of year	250.00	-	80.00	27.00	357.00
Invested	5.00	4.50	15.00	3.00	27.50
Balance at end of year	255.00	4.50	95.00	30.00	384.50
Accumulated depreciation/amortisation					
At start of year	95.00	-	35.00	-	130.00
Charge in year	10.00	0.45	10.00	-	20.45
Balance at end of year	105.00	0.45	45.00	-	150.45
Net book value					
At start of year	155.00	-	45.00	27.00	227.00
At end of year	150.00	4.05	50.00	30.00	234.05

Workings: lease payments				
Year	Payments	Interest	Principal	Principal balance
0	4.50			4.50
1	(0.70)	0.40	(0.30)	4.20
2	(0.70)	0.38	(0.32)	3.88
3	(0.70)	0.35	(0.35)	3.53
4	(0.70)	0.32	(0.38)	3.14
5	(0.70)	0.28	(0.42)	2.73
6	(0.70)	0.24	(0.46)	2.27
7	(0.70)	0.20	(0.50)	1.77
8	(0.70)	0.16	(0.54)	1.23
9	(0.70)	0.11	(0.59)	0.64
10	(0.70)	0.06	(0.64)	**(0.00)**
Totals	**(2.50)**	**2.50**	**(4.50)**	
IRR	**8.96%**			

Workings: depreciation			
	Cost	Rate	Amount p.a.
Depreciation vessels	4.50	10%	0.45

Financial Statements: Option 3 - IPSAS 32 service concession

Statement of financial performance for year ended December 31, 20xx			
Revenue	**Without vessels**	**Impact vessels**	**With vessels**
Tax	95.00		95.0
Grants	7.00		7.0
Other (ferry revenues)		0.45	0.45
Property income	3.00		3.0
Interest	4.00		4.0
Dividends	10.00		10.0
Total revenue	**119.00**	**0.45**	**119.45**
Expenditure			
Employee compensation	70.00		70.00
Depreciation	10.00	0.45	10.45
Interest paid	5.00	-	5.00
Total expenses	**85.00**	**0.45**	**85.45**
Net operating surplus/(deficit)	**34.00**	**-**	**34.00**

Statement of financial position at December 31, 20xx				
Assets	**Without vessels**	**Impact vessels**	**With vessels**	**Previous year**
Current assets				
Receivables	10.00		10.00	8.00
Cash and cash equivalent	40.00	-	40.00	12.00
Non-current assets			-	
Land and buildings	150.00		150.00	155.00
Property, plant and equipment	50.00	4.05	54.05	45.00
Investments	30.00		30.00	27.00
Total assets	280.00	4.05	284.05	247.00
Liabilities				
Current liabilities				
Accounts payable	15.00		15.00	12.00
Loans repayable within 12 months	7.00		7.00	9.00
Non-current liabilities			-	
Service concession liability		4.05	4.05	
Loans repayable beyond 12 months	30.00		30.00	32.00
Total financial liabilities	52.00	4.05	56.05	53.00
Net assets/(liabilities) = net equity	228.00	-	228.00	194.00

Financial Statements: Option 3 - IPSAS 32 service concession (cont'd)

Cash Flow Statement for year ended December 31, 20xx			
Operations	**Without vessels**	**Impact vessels**	**With vessels**
Operating surplus	34.00		34.00
Add back:			
Depreciation	20.00		20.00
Inc in receivables	(2.00)		(2.00)
Inc in payables	3.00		3.00
Net cash flow from operations	**55.00**	**-**	**55.00**
Investing			
Land & buildings	(5.00)		(5.00)
Property plant & equipment	(15.00)		(19.50)
Investments (inc sinking fund investments)	(3.00)		(3.00)
Net cash flow from investing	**(23.00)**	**-**	**(23.00)**
Financing			
Increase/(decrease) in loans repayable in 12 months	(2.00)		(2.00)
Increase/(decrease) in loans repayable after 12 months	(2.00)		(2.00)
Net cash flow from investing	**(4.00)**	**-**	**(4.00)**
Total net cash flow	28.00	-	28.00
Cash at start of year	12.00		12.00
Cash at end of year	40.00		40.00

Statement of Changes in net equity for the year ended December 31, 200xx			
	Without vessels	**Impact vessels**	**With vessels**
Opening net assets	194.00	-	194.00
Surplus for year	34.00	-	34.00
Closing net assets	228.00	-	288.00

Financial Statements: Option 3 - IPSAS 32 service concession (cont'd)

Extract from notes: movement on non-current assets for the year ended December 31, 20xx					
Description	**Land & buildings**	**Service concession assets**	**Property, plant & Equipment**	**Investments**	**Total**
Cost or valuation					
Balance at start of year	250.00	-	80.00	27.00	357.00
Invested	5.00	4.50	15.00	3.00	27.50
Balance at end of year	255.00	4.50	95.00	30.00	384.50
Accumulated depreciation/amortisation					
At start of year	95.00	-	35.00	-	130.00
Charge in year	10.00	0.45	10.00	-	20.45
Balance at end of year	105.00	0.45	45.00	-	150.45
Net book value					
At start of year	155.00	-	45.00	27.00	227.00
At end of year	150.00	4.05	50.00	30.00	234.05

Workings: depreciation			
Depreciation vessels	Cost	Rate	Amount p.a.
	4.50	10%	0.45

Workings: ferry revenues and liability			
Year	Net revenue receipts by Operator	Recorded as reduction of liability	Liability balance
0			4.50
1	0.70	0.45	4.05
2	0.70	0.45	3.60
3	0.70	0.45	3.15
4	0.70	0.45	2.70
5	0.70	0.45	2.25
6	0.70	0.45	1.80
7	0.70	0.45	1.35
8	0.70	0.45	0.90
9	0.70	0.45	0.45
10	0.70	0.45	(0.00)
Totals	**7.00**	**4.50**	

Financial Statements: Option 4 - Joint Venture

Statement of financial performance for year ended December 31, 20xx			
Revenue	**Without JV**	**JV**	**With JV**
Tax	95.00		95.0
Grants	7.00		7.0
Other (ferry revenues)			-
Property income	3.00		3.0
Interest	4.00		4.0
Share of JV profit		0.34	0.34
Dividends	10.00		10.0
Total revenue	**119.00**	**0.34**	**119.34**
Expenditure			
Employee compensation	70.00		70.00
Depreciation	10.00		10.45
Interest paid	5.00	-	5.00
Total expenses	**85.00**	**-**	**85.45**
Net operating surplus/(deficit)	**34.00**	**0.34**	**34.34**

Statement of financial position at December 31, 20xx				
Assets	**Without JV**	**JV**	**With JV**	**Previous year**
Current assets				
Receivables	10.00		10.00	8.00
Cash and cash equivalent	40.00	(0.16)	39.84	12.00
Non-current assets			-	
Land and buildings	150.00		150.00	155.00
Property, plant and equipment	50.00		50.00	45.00
Investments in JV		0.50	0.50	
Investments (others)	30.00		30.00	27.00
Total assets	280.00	0.34	284.34	247.00
Liabilities				
Current liabilities				
Accounts payable	15.00		15.00	12.00
Loans repayable within 12 months	7.00		7.00	9.00
Non-current liabilities			-	
Loans repayable beyond 12 months	30.00		30.00	32.00
Total financial liabilities	52.00	-	52.00	53.00
Net assets/(liabilities) = net equity	228.00	0.34	228.34	194.00

Financial Statements: Option 4 - Joint Venture (cont'd)

Cash Flow Statement for year ended December 31, 20xx			
Operations	**Without JV**	**JV**	**With JV**
Operating surplus	34.00		34.00
Add back:			
Depreciation	20.00		20.00
Inc in receivables	(2.00)		(2.00)
Inc in payables	3.00		3.00
Net cash flow from operations	**55.00**	**-**	**55.00**
Investing			
Land & buildings	(5.00)		(5.00)
Property plant & equipment	(15.00)		(19.50)
Dividend from JV		0.34	0.34
Investments	(3.00)	(0.50)	(3.50)
Net cash flow from investing	**(23.00)**	**(0.16)**	**(23.16)**
Financing			
Increase/(decrease) in liabilities repayable in 12 months	(2.00)		(2.00)
Increase/(decrease) in liabilities repayable after 12 months	(2.00)		(2.00)
Net cash flow from investing	**(4.00)**	**-**	**(4.00)**
Total net cash flow	28.00	(0.16)	27.84
Cash at start of year	12.00		12.00
Cash at end of year	**40.00**		**39.84**

Statement of Changes in net equity for the year ended December 31, 200xx			
	Without JV	**JV**	**With JV**
Opening net assets	194.00	-	194.00
Surplus for year	34.00	0.34	34.34
Closing net assets	228.00	0.34	288.34

Extract from notes: movement on non-current assets for the year ended December 31, 20xx				
Description	**Land & buildings**	**Property, plant & Equipment**	**Investments (excluding JV)**	**Total**
Cost or valuation				
Balance at start of year	250.00	80.00	27.00	357.00
Invested	5.00	15.00	3.00	23.00
Balance at end of year	255.00	95.00	30.00	384.00
Accumulated depreciation/amortisation				
At start of year	95.00	35.00	-	130.00
Charge in year	10.00	10.00	-	20.00
Balance at end of year	105.00	45.00	-	150.00
Net book value				
At start of year	155.00	45.00	27.00	227.00
At end of year	150.00	50.00	30.00	230.00

Workings: investment in JV	
Initial investment at cost	0.50
Share of profit (50% x .68)	0.34
Less dividend received	(0.34)
Closing value of investment	0.50

Summary financial statements of joint venture company (All Figures in Naira billions)	
Revenue	
Ferry fares and freight charges	1.65
Expenditure	
Operating expenses	0.35
Interest on bonds	0.18
Depreciation	0.45
Total expenses	**0.98**
Net profit/(loss)	**0.68**

JV Company statement of financial position at December 31, 20xx	
Assets	
Ferry	4.05
Cash	0.45
Net assests	4.50
Liabilities	
Bonds	3.50
Net assets/liability = net equity	**1.00**

JV company Statement of Changes in Net Equity for the year ended December 31, 20xx	
Opening net assets	-
Equity introduced	1.00
Dividends paid	(0.68)
Profit for year	0.68
Closing net assets	1.00

JV company cash flow statement for the year ended December 31, 20xx	
Operations	
Operating surplus	0.68
Add back:	
Depreciation	0.45
Net cash flow from operations	**1.13**
Investing	
Ferries	**4.50**
Financing	
Bonds	3.50
Equity issued	1.00
Dividends paid	(0.68)
Net cash flow from financing	**3.82**
Total net cash flow	0.45
Cash at start of year	-
Cash at end of year	**0.45**

Financial Statements: Option 5 - concession to private owners

Statement of financial performance for year ended December 31, 20xx			
Revenue	**Without vessels**	**Impact concession**	**With concession**
Tax	95.00		95.0
Grants	7.00		7.0
Other (concessions)		0.10	0.1
Property income	3.00		3.0
Interest	4.00		4.0
Dividends	10.00		10.0
Total revenue	**119.00**	**0.10**	**119.10**
Expenditure			
Employee compensation	70.00		70.0
Use of goods and services			-
Depreciation	10.00		10.0
Management services	25.00		25.0
Interest paid	5.00	-	5.00
Total expenses	**110.00**	**-**	**110.00**
Net operating surplus/(deficit)	**9.00**	**0.10**	**9.10**

Statement of financial position at December 31, 20xx				
Assets	**Without vessel concession**	**Impact concession**	**With**	**Previous year**
Current assets				
Receivables	10.00		10.00	8.00
Cash and cash equivalent	15.00	1.00	16.00	12.00
Non-current assets			-	
Land and buildings	150.00		150.00	155.00
Property, plant and equipment	50.00		50.00	45.00
Investments (others)	30.00		30.00	27.00
Total assets	255.00	1.00	256.00	247.00
Liabilities				
Current liabilities				
Accounts payable	15.00		15.00	12.00
Loans repayable within 12 months	7.00		7.00	9.00
Non-current liabilities			-	
Fees in advance		0.90	0.90	
Loans repayable beyond 12 months	30.00		30.00	32.00
Total financial liabilities	52.00	0.90	52.90	53.00
Net assets/(liabilities) = net equity	203.00	0.10	203.10	194.00

Financial Statements: Option 4 - Joint Venture (cont'd)

Cash Flow Statement for year ended December 31, 20xx			
Operations	**Without vessels**	**Impact concession**	**With concession**
Operating surplus	9.00	0.10	9.10
Add back:			
Depreciation	20.00		20.00
Inc in receivables	(2.00)		(2.00)
Inc in payables	3.00		3.00
Net cash flow from operations	**30.00**	**0.10**	**30.10**
Investing			
Land & buildings	(5.00)		(5.00)
Property plant & equipment	(15.00)		(15.00)
Investments	(3.00)		(3.00)
Net cash flow from investing	**(23.00)**	-	**(23.00)**
Financing			
Increase/(decrease) in liabilities repayable in 12 months	(2.00)		(2.00)
Fees in advance		0.90	0.90
Increase/(decrease) in liabilities repayable after 12 months	(2.00)		(2.00)
Net cash flow from investing	**(4.00)**	**0.90**	**(3.10)**
Total net cash flow	3.00	1.00	4.00
Cash at start of year	12.00		12.00
Cash at end of year	**15.00**		**16.00**

Statement of Changes in net equity for the year ended December 31, 200xx			
	Without vessels	Impact concession	With concession
Opening net assets	194.00	-	194.00
Surplus for year	9.00	0.10	9.10
Closing net assets	203.00	0.10	203.10

Contact Address:

10 Bobo Street
Maitama, Abuja, Nigeria

info@perlnigeria.net

www.perlnigeria.net

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