October 3, 2019

Mr. David Bean
Director of Research and Technical Activities
Project No. 30-1
Governmental Accounting Standards Board
PO Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

The State and Local Government Finance Division (SLGFD), as staff to the Local Government Commission (LGC), has oversight over local governments in North Carolina. One important way we exercise oversight for most local governments is through review of the annual audited financial statements. The statements are audited by independent CPAs, submitted to the SLGFD, and reviewed by our staff for GAAP presentation and signs of financial weakness. Almost all our entities have a June 30 fiscal year end and because they issue GAAP statements, we are able to compare statements and study trend data utilizing a number of variables including size or type of government.

We appreciate the opportunity to comment on the Exposure Draft: Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs). We believe the issues being discussed in this document are important in the GASB’s efforts to provide better and more complete information to financial statement users. After careful consideration of the material, we offer the following comments.

Since the proposed standard provides specific guidance on accounting and financial reporting requirements for PPPs that either 1) meet the definition of an SCA or 2) do not meet the definition of an SCA and do not meet the definition of a lease, as defined in Statement No. 87, some users may find it helpful to have a visual aid, perhaps a chart or flowchart, to assist in identification of the type of agreement in order to apply the correct standard.

For a PPP asset that is a new asset purchased or constructed by the operator and the PPP does not meet the definition of an SCA (as identified in paragraph 16 of the Exposure Draft), the standard requires the recognition of a receivable instead of a capital asset. Since this recognition impacts the net position classification initially when the PPP asset is placed into service and at a future date when ownership of the asset transfers, it is recommended that the Board require full and complete details of such a transaction and the initial and future financial impact on the net position in the Notes to the Financial Statements.
The discussion of and requirement for remeasurement, modification or termination (partial or full) in the Exposure Draft does not appear to be complete and consistent throughout the document. We recommend the Board review each applicable section in order to provide complete and consistent guidance and a list of realistic examples to which each scenario would apply. Specific details on the recommended or allowable measurement methodology(ies) for remeasurement, modification or termination would be beneficial to ensure consistent financial reporting.

Impairment indicators, referenced in paragraph 46 of the Exposure Draft, that explicitly relate to an underlying PPP asset should be provided to assist the user in identification of an impairment. Details on how to measure impairment and the parameters to use in such measurement should be also be provided. Details, when different, should also be provided for governmental operators.

Some local North Carolina governments currently utilize PPPs that do not meet the definition of an SCA or a lease, so we encourage the Board to provide substantive detail on how to apply the standard to such arrangements that exist at the time of adoption. Specific detail of any changes needed in the recognition of the underlying PPP asset, whether owned by a transferor, a new asset purchased or constructed by the operator, or an exiting asset of the transferor that was or is being improved by the operator should be provided to ensure consistent financial reporting. For existing APAs, we also encourage the Board to provide detail on changes needed in the recognition of these arrangements based on prior accounting standards to ensure compliance with the proposed standard.

For existing PPP arrangements that contain multiple components, recording the impact of a modification or termination may prove difficult when trying to assign a value to the individual components of the arrangement that were not identified in the original PPP contract. Providing options of methodologies to use in determining a value in such cases would be helpful and ensure consistent valuation across governmental units.

Thank you again for the opportunity to comment on this proposed statement.

Sincerely,

Sharon G. Edmundson, MPA, CPA
Director, Fiscal Management Section