



September 13, 2019

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: June 6, 2019 GASB Proposed Statement (ED), *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (Project No. 30-1)

Dear Mr. Bean:

The American Institute of CPAs (AICPA) is the world's largest member association representing the accounting profession, with more than 418,000 members in 143 countries, and a history of serving the public interest since 1887. One of the objectives that the Council of the AICPA established for the Private Company Practice Section (PCPS) Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciates the Board's effort with this ED to better meet the informational needs of financial statement users by improving the comparability of financial statements among governments that enter into public-private and public-public partnerships (collectively referred to as PPPs) and availability payment arrangements (APAs) and by enhancing the relevance, reliability, and consistency of information about PPPs and APAs.

The guidance proposed in the ED is very similar to GASB Statement 87, *Leases*, and, therefore, brings consistency in reporting. The key differences relate to the treatment of the asset that is being operated. However, TIC noted that all of the examples in the ED are bridges and toll roads. PPPs also can be found in convention centers and sporting arenas. TIC believes that providing more diverse examples would allow users to better understand the various types of agreements and the impact they have on accounting treatment.

In Illustration 3, *Public-Public Partnership Arrangement That Does Not Meet the Definition of a Service Concession Arrangement to Design, Build, and Operate a New Bridge*, governments will be putting a receivable and deferred inflow on the financial statements for an asset they will receive in 30 years. In this example, \$10 million of revenue will be recorded each year based on the estimated value of the asset. This is using the County Bridge Authority's (CBA's) estimated

carrying value, and not the State's estimated carrying value. These are large projects and the recording of this revenue will have the cumulative effect of creating potentially large unrestricted net position as the project progresses, which could be misleading to users. Users may find it confusing that the government is recording \$10 million in revenue each year related to this asset, when rather they are just one year closer to receiving the asset. Therefore, TIC would prefer requiring the government to record the entire receipt of the asset when it is transferred at acquisition value and have it as a note disclosure until received.

Furthermore, TIC questions the different treatment between SCAs and PPPs that do not meet the definition of an SCA because the government does not set the price for the tolls. Does the authority to set the prices for tolls change the dynamic of who controls the asset? In Illustrations 3 and 4 of the ED, this changes the recognition of the asset on the government's financial statements.

TIC understands that the goal of PPP was to fill the gap between SCA accounting and lease accounting and, not setting the price is one reason for the gap. However, TIC was confused as to why there is different capitalization treatment when the asset is or is not an SCA. TIC would like to understand the underlying theory that explains the difference. Concept Statement 4 indicates an asset should be booked when the right to the asset is in the future, so TIC would ask how is this different between SCAs and PPPs?

In Illustration #4, *Availability Payment Arrangements to Design, Build, Finance, and Operate a Bridge*, should there be certain disclosures about the future performance objectives and related payments owed by the government? TIC questioned whether it would be appropriate to require this under the standard. Or, did GASB believe that it would fall under the extant commitments and contingencies guidance? TIC believes the government should disclose the full amount of the potential liability in the notes as this would be useful to users. TIC is curious whether GASB gave consideration recording the liability prior to the bridge being placed into operation for the upcoming payment and 40-year commitment given the "reasonably certain" approach being taken on leases. For example, if the bridge was six months from being completed at year-end, it is reasonably certain to assume that the government will have a large liability coming due that is not recorded on the financial statements.

Finally, Illustration #4 indicates the state should report an asset for the initial payment of \$10 million to the corporation. TIC was curious if that would be recorded as a prepaid asset or Construction in Progress (CIP). TIC believes this should be clarified in the illustration as the difference in presentation could lead to very different reporting between entities.

TIC understands that revenue recognition guidance currently is being updated and the project is not complete. TIC would like to know how that project's treatment of revenue recognition would impact this standard as revenue recognition could be recognized over time or a point in time.

TIC believes the standard should address governmental fund accounting. While the financial reporting model is still under consideration, without any guidance in this area, there may be diversity in practice.

TIC believes that GASB should consider referring to the notes required in GASB 87, as applicable to PPPs, rather than listing very similar note requirements in paragraph 47. TIC believes when note requirements are listed separately like this preparers have the tendency to over-disclose and create duplicative notes for the same type of information because they believe the note needs to be separate.

In general, TIC believes the APA section could be expanded as the guidance is more complete for PPPs. TIC believes that GASB likely will have to answer many questions on the accounting as these types of transactions become more frequent. TIC would recommend adding additional illustrations as well as implementation guide Q&As to be issued once additional examples and questions become available. TIC recommends providing more guidance on the definition to make it more clear as to what these APA arrangements are and are not. In addition, would these arrangements meet the definition of debt and, therefore, be subject to GASB 88 and treated as a long-term payment arrangement? TIC believes this should be addressed as well.

TIC agrees with the proposed effective date for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. Since the guidance is similar to the concepts in GASB 87, TIC believes it is appropriate to encourage earlier application. TIC believes that retrospective application is appropriate to ensure consistency in financial reporting for all periods presented.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Danielle Supkis-Cheek", with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair
On Behalf of the PCPS Technical Issues Committee