



October 23, 2018

Frederick M. Nutt, Controller
U.S. Office of Management and Budget
725 17th Street, NW
Washington, DC 20503

Dear Mr. Nutt:

Following the passage of the Uniform Guidance (UG) on December 26, 2013, the National Association of State Auditors, Comptrollers and Treasurers created a UG Implementation Work Group. Since that time, the work group has identified a variety of implementation issues. The U.S. Office of Management and Budget (OMB) has addressed most of the issues, primarily through the issuance of frequently asked questions by the Council on Financial Assistance Reform.

There is still a significant, unresolved issue pertaining to the interpretation of the UG because of its reference to generally accepted accounting principles (GAAP) for pension costs in section 200.431(g)(3) (see our letter dated May 13, 2016). We are writing today to make OMB aware of another issue: specifically, an instance where the UG references GAAP and the related GAAP is changing.

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 87, *Leases*. This standard eliminated the distinction between operating and capital leases and adopted the classification referred to as a “lease asset,” which is defined as an intangible right-to-use asset.

This change in GAAP has raised several questions about how federal awarding agencies will interpret and apply the UG as a result of the new lease standard. For example, under 200.465, *Rental costs of real property and equipment*, should all leases now be considered operating, or should the new intangible right-to-use assets be subject to the capital asset (including equipment) and expenditure provisions of the UG, where depreciation and interest may be allowable costs? If the latter is the case, because the intangible right-to-use assets will not technically be depreciated under the new standard (rather, they are amortized), will separate records need to be established to track depreciation? In addition, will the \$5,000 equipment threshold be applicable (since the UG defines equipment as “tangible personal property”)? If so, there will be a large administrative burden on governments considering the enormous volume of equipment rental contracts that would be subject to this requirement.

We request that OMB issue prompt guidance to address this change in GAAP which is referenced by the UG. States are now in the process of spending resources to analyze the impact of GASBS 87 on their large inventory of leases and to operationalize new policies that will be needed to comply with the UG’s requirements pertaining to rental costs.



Also, because states, as pass-through entities, make federal awards to subrecipients that are non-profits, we request that OMB disclose how it will interpret and apply the UG for recent changes to the lease standard established by the Financial Accounting Standards Board, which creates similar challenges. States need clear guidance from OMB to ensure that they apply the same requirements to non-profits when passing through an award as federal awarding agencies apply to direct awards.

These two issues, related to pension costs and rental costs, are very important matters for the states, and we are hopeful that OMB will address them soon to eliminate the burden caused by uncertainty.

We are pleased to provide OMB with more details about the ramifications on the states. Should you have any questions or wish to discuss further, please contact George Strudgeon at (804) 225-3350, extension 339, or Shirley Browne at (207) 626-8423. You may also contact Kinney Poynter, NASACT's executive director, at (859) 276-1147.

Respectfully,

George Strudgeon, Auditor Director
Office of Auditor of Public Accounts, Virginia
Co-Chair, NASACT Uniform Guidance Work Group

Shirley Browne, Deputy Controller
Office of the State Controller, Maine
Co-Chair, NASACT Uniform Guidance Work Group

cc: Kinney Poynter, Executive Director, NASACT
Tim Soltis, Deputy Controller, Office of Management and Budget
Gilbert Tran, Senior Policy Analyst, Office of Management and Budget