



April 30, 2019

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Leases* proposed Implementation Guide.

We generally agree with the provisions of the ED. However, we have the following specific comments that we believe the Board should consider as it finalizes this guidance.

*Question 4.1*

The answer directs financial statement preparers to GASB Statement 33 for guidance on leases that are nonexchange transactions. We request that the next implementation guide update addressing GASB 33 include specific guidance on how to account for such nonexchange lease transactions by using the example in this question and answering it in terms of GASB 33.

*Question 4.8*

We believe that the response should be reworded to avoid confusion regarding whether the leased land would be excluded. Following is suggested wording for the response:

No. In this example, the land itself is the underlying asset being leased and not the crops themselves; therefore, this contract would not be excluded from Statement 87. Paragraph 8b of Statement 87 excludes "leases of biological assets, including timber, living plants, and living animals." The exclusion applies only when the underlying asset in the lease is the biological asset itself. If the government only provided the company with a lease, easement or permit that conveyed the right to grow or harvest the crops themselves and did not convey control of the right to use the land, then the lease would be excluded from Statement 87.

*Question 4.10*

The question discusses land that is leased for hunting purposes to only one party. The end of the answer includes a reference to Question 4.2, which discusses a facility being leased to different parties on different days. Please clarify if the reference to Question 4.2 is intended to indicate that the hunting land could be leased to different parties on different days and still meet the lease criteria.

*Question 4.17*

We believe the answer could also include a reference to Statement 87, paragraph 16, that states the maximum possible term is the noncancelable term.



*Question 4.18*

We believe the answer to this question could be improved by specifically pointing out the difference between the examples given in questions 4.17 and 4.18, and by specifying the fact that the option to cancel in 4.17 applies to both the lessor and lessee, but the option to cancel in 4.18 only applies to the lessee.

*Question 4.21*

The answer references paragraph 16 of GASB 87 which includes the phrase “any notice periods.” We request that GASB include guidance on the meaning of “any notice periods” in the implementation guide.

We request that the guidance address the situation when a government determines it is going to cancel after the first 6 months, if the classification of the lease should be changed to short-term.

Regarding short-term leases, the answer states: “Paragraph 16 of Statement 87 defines the maximum possible term as the noncancelable period for a lease that is cancelable by ‘either the lessee or the lessor.’ However, the intent of that provision is that the lessee and lessor *both* are required to have a right to cancel.” The Board is changing the meaning of paragraph 16 and we are concerned how this will impact the implementation of this portion of Statement 87. Due to the way the standard is written in this section, many users would not foresee a need to seek out further clarification via the implementation guide, possibly leading to inconsistent application of this portion of the standard.

*Question 4.23*

It would be useful if the Board would provide similar questions with slightly altered scenarios addressing situations such as: would this same situation be considered a lease if ownership did not transfer, or if there was a termination option within the contract.

*Question 4.35*

We request that the Board address in a separate question and answer how previously recorded prepayments are recognized at the beginning of the lease term.

We request a question be added to provide guidance to address the situation where some or all of the payment is made for the right to use the land that the building is being constructed on, including if the portion for the right to use the land should be reported as part of the lease asset.

The question and answer discusses accounting for prepaid leases from the lessee’s point of view. It would also be helpful to include the accounting from the lessor’s point of view since it is not considered a financing.

*Question 4.37*

We request that the Board expand this question to address how the value of the asset would be determined when the asset is reclassified from a right to use asset to a tangible asset at the purchase date. For example, would the tangible asset be valued simply for the price paid on the purchase date, or would the prior lease payments be considered part of the tangible asset’s value? Including an example in Appendix B would also be helpful.



*Questions 4.41 and 4.45*

Both questions refer to aggregation of lessees note disclosure information. We request that the Board provide further guidance on how to aggregate lessee note disclosures.

*Question 4.43*

We request that the Board include an example in Appendix B for the following situation: Reclassifying an asset from a right to use lease asset (intangible) to a tangible asset class. Please include guidance regarding if it is acceptable to use the reclassification column, to the extent the amounts net to \$0, and any difference reported as either an increase or decrease. We also request guidance on how to account for the accumulated amortization/depreciation on the right to use asset.

*Question 4.44*

We request that the Board provide further guidance in the answer to address if “separately from other capital assets” means separately from other tangible capital assets. The answer states that lease assets should be included within the disclosure, then proceeds to state that lease assets should be “disclosed separately from other capital assets.” Please clarify if the lease assets are to be included in the schedule of changes in capital assets as separate line items by major classes of capital assets, or in their own schedule of changes by major classes of capital assets. Another option is to modify the question, removing the phrase “with other capital assets,” which would make the response as it currently reads less confusing.

*Question 4.48*

We request that the Board revise the answer to clarify whether it would be different if the contract was with a governmental entity or the pension fund’s primary government. If the answer would be the same, we suggest changing the wording to reflect “entity,” as opposed to referencing governmental/non-governmental. If the answer is different based on type of entity, we suggest ensuring the answer adequately addresses the differences between conveying the right to use an asset classified as an investment to a non-governmental entity versus a governmental entity.

*Question 4.49*

For clarity, we suggest the Board state in the answer that the lease component that meets the criteria of paragraph 43 should be accounted for in accordance with that paragraph and the lease component that does not meet the criteria of paragraph 43 should be accounted for in accordance with paragraphs 44-59.

*Question 4.52*

The question and answer states that lease receivables should be amortized using the interest method. We request guidance for the associated Deferred Inflow and if this can be amortized using either straight line or the interest method.

*Question 4.58*

We request a question be added to provide guidance regarding how to determine what qualifies as a “major counterparty.” Please clarify if it is considered to be 51 percent, or if it is considered on a materiality basis.



*Question 4.61*

We request that the Board elaborate on and provide an example of what the journal entries for the \$10,000 in installation costs would be.

*Questions 4.66 and 4.67*

The questions refer to “contracts that are entered into at or near the same time.” We request that the Board provide guidance for “at or near the same time,” which is needed to ensure consistency among reporting entities.

*Question 4.72*

We believe this would be more straight-forward if the example in the answer were included in the question with the additional criteria of the initial lease asset and liability amounts. In addition, citing paragraph 33 of Statement 87 would be helpful.

*Question 4.78*

We request that the Board add “if prepared” or “as applicable” to the end of the last sentence of the answer. Stand-alone financial statements are not always prepared for blended component units. We believe the addition would make it clear that GASB is not implying that stand-alone statements are required in all cases.

*Question 4.79*

We request clarification regarding what discount rate to use for the recording of all lease assets and liabilities during the implementation year, including whether to record all leases at the discount rate of the implementation year, or whether to go back and determine the discount rates of all leases according to their lease commencement years, even though the lease assets and liabilities would not be retroactively recorded.

*Appendix B*

The illustrations demonstrate accounting from the lessee point of view. It would be helpful to also include the lessor point of view.

It would be helpful to have a more complex example, such as an illustration with re-measurements. Additionally, an illustration for the subsequent measurement date of the lease with a continuation of the amortization schedule after the re-measurement.

*Illustration B2 (page 31)*

The total of the initial lease liability foots to \$112,307, and the ED shows it footing to \$112,308.

*General Comments*

- We request that GASB provide a few examples of remeasurement and sample journal entries.
- We request that the Board include a question that specifically addresses a lease that includes notice periods that would be included in the maximum possible term as referenced in Statement 87, paragraph 16.
- We suggest arranging the following questions together in a group since they all relate: questions 4.5, 4.12 and 4.13.

National Association of State  
**Auditors, Comptrollers  
and Treasurers**



We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASACT at (859) 276-1147 or me at (602) 542-5405.

Sincerely,

A handwritten signature in black ink that reads "D. Clark Partridge". The signature is written in a cursive style with a large, prominent "D" and "P".

D. Clark Partridge  
President, NASACT  
State Comptroller, Arizona