May 31, 2016

David Bean
Director of Research
Project No. 3-24P
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Tennessee Department of Audit, we thank the GASB for the opportunity to comment on its proposed Exposure Draft (ED), Leases. We agree with the ED proposal that all leases are financings of the right to use an underlying asset. We also agree with the inclusion of a short-term lease exception. In addition, we agree the proposal will result in less complex application for practitioners and auditors.

For ¶22, if there were facts and circumstances that the change in the incremental borrowing rate was material, we believe remeasurement would need to be required. In regard to ¶24b, does the board intend that a leasehold improvement would be an example of a lease incentive received from the lessor? If so, we suggest adding this clarification as an example in the basis for conclusions (BFC ¶B28), especially because existing GASB standards have little leasehold improvement guidance. In addition, if the lessor is required to recognize all leasehold improvements as part of the capital asset calculation, this clarification would be helpful since the lessee has the intangible right to use the underlying capital asset. For ¶31g, we suggest adding a separate disclosure for a leasehold improvement if it was a significant commitment. For ¶60, we do not believe the 12 month time period for a short-term lease exception is costs beneficial. Instead, we believe a timeframe of 24 months would be more beneficial for preparers. For ¶B73, the first sentence appears to contradict the current financial resources measurement focus for the recognition of a deferred inflow of resources because only resources available should be recognized in the governmental funds (i.e., “portion of the receivable that is not available”). If we are misinterpreting this, we recommend that the board clarify this guidance.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit