Letter of Comment No. 005
File Reference: Leases2-IG87
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Iowa Department of Administrative Services
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DAS
Governor Kim Reynolds
Lt. Governor Adam Gregg
Janet Phipps, Director

April 23, 2019

Mr. David Bean, Director of Research and Technical Activities
Project No. 3-24
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: GASB ED – Implementation Guide: *Leases*

Dear Mr. Bean:

Thank you for the opportunity to respond to GASB on the GASB's Exposure Draft (ED) of the Implementation Guide – *Leases*.

4.3 – The question states, "Are certain easements excluded from the scope of Statement 87?" We are puzzled why the answer to the question isn't, "Yes, **all easements are excluded** from the scope of Statement 87." GASB 87, paragraph 8, subparagraph a states, the statement does not apply to "leases of intangible assets." GASB 51, *Accounting and Financial Reporting for Intangible Assets*, paragraph 1, provides examples of intangible assets, **including easements**. We don't understand how a contract for an easement of any period of time (whether permanent or defined) or any dollar amount could be included in the scope of GASB 87, given that easements are an intangible asset.

Assuming question 4.3 was worded differently and was for a lease of land for the following periods of time– 99 years, undefined period of time, or indefinite period of time – would these types of agreements be excluded from the scope of GASB 87 due to them not meeting the "period of time" criteria?

4.21 – The answer refers the reader to paragraph 16 of GASB 87. Paragraph 16, says "for a lease that is cancelable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, **including any notice periods**." We could not find any explanation in GASB 87 or this ED to define what "any notice periods" means. We felt this could be a frequent question from our state departments as they work to understand and implement GASB 87; as a result, we submitted a technical inquiry to GASB staff to gain an understanding of this phrase. We feel it would be valuable to address the definition of "any notice periods" in this implementation guide.

4.21 – 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." We are concerned that with this answer, the Board is changing the meaning of paragraph 16 of GASB 87; we are concerned how this will impact the implementation of this portion of GASB 87. As a preparer, the way the standard is written in this section, we would not foresee a need to seek out further clarification via the implementation guide – likely leading to inconsistent application of this portion of GASB 87.

4.23 – It would be useful if the Board would provide similar questions with slightly altered scenarios. 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?

4.24 – It would be helpful to expand the answer to clearly explain that the requirement that the school district purchases the computers at the conclusion of the lease is the same thing as **"a contract that transfers ownership"** per paragraph 19 of GASB 87. For example to say, "Yes, because the school district is contractually required to purchase the computers at the end of the lease term, ownership is transferred resulting in this being a financed purchase." This could be viewed as two separate situations – resulting in the answer of "no" to the transfer of ownership question, because first there must be an outlay of cash to buy the computers before the ownership goes to the school district, resulting in this not being viewed consistently as a financed purchase.

4.35 – What if some or all of this payment is made for the use of the land that the building is being constructed on? Would the portion for the use of the land be reported as part of the lease asset – the right to use the land?

4.37 – Could 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? An example in Appendix B would be very valuable to assist our understanding of this.

4.38 – "The government should amortize the lease asset over the remaining useful life of the underlying asset, if different from the lease term." Assuming the underlying asset has a remaining useful life 5 years longer than the lease term, what happens to the right to use asset and related amortization when it isn't fully amortized upon the purchase of the tangible asset? An example in Appendix B would be very valuable to assist our understanding of this.

4.40 – When we refer to depreciation expense in our CAFR, this includes amortization expense (i.e. GASB 51 – Intangible Assets). We do not use the term amortization expense in our financial statements. When referring to intangible assets, it appears based on this Q&A that the use of depreciation expense instead of amortization expense is okay. Is this correct?

4.41 – We would appreciate additional guidance and examples on aggregating information for note disclosure purposes. The State has hundreds (if not thousands) of leases. The ability to aggregate information is vitally important to keeping the footnotes from expanding to an unreasonable and overwhelming number of pages.

4.43 – When we reclassify an asset from a right to use lease asset (intangible) to a tangible asset class, we anticipate using the reclassification column to be consistent with how we move construction in progress to buildings. It would seem unlikely that the capitalized value of the right to use asset would be the same as the capitalized value of the tangible asset (see 4.37 above). How would you handle this situation? Is it acceptable to use the reclassification column, to the extent the amounts net to $0 and any difference reported as either an increase or decrease? What happens to the accumulated amortization/depreciation on the right to use asset; is it reclassified also and the purchased asset is now depreciated? An example in Appendix B would be very valuable to assist our understanding of this.

Illustration B2 (Pg 31) – An editorial comment, the total of the initial lease liability foots to $112,307 – the ED shows it footing to $112,308.

We were quite disappointed to see there were no examples included in GASB 87 – Leases. We find examples to be extremely valuable to the implementation process and again, we were disappointed to see just three illustrations in the Leases Implementation Guide Exposure Draft. Please consider including additional examples, such as mentioned in our response above.

If you have questions or need additional information regarding this response, please do not hesitate to contact Kim Knight at (515) 281-6523.

Sincerely,

Jay Cleveland

Jay Cleveland, Chief Operating Officer
State Accounting Enterprise, Iowa Department of Administrative Services
(515) 281-3725 | jay.cleveland@iowa.gov