



**Office of the Washington State Auditor
Pat McCarthy**

April 29, 2019

Via Electronic Mail

Director of Research and Technical Activities
Project No. 3-13
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Response to GASB Exposure Draft – *Fiduciary Activities Implementation Guide*

Dear Mr. Bean:

The Office of the Washington State Auditor appreciates the opportunity to give input on the GASB's proposed Preliminary Views – *Leases Implementation Guide* (Project No. 3-24). In our constitutional role as the auditor of public accounts for the State of Washington, our Office performs the financial audit of the State of Washington and annually performs or reviews over 800 financial audits of the State's agencies and all types of local governments, along with their component units. Overall, we appreciated this important guidance and found that it addressed most of the situations we have in Washington State. Our comments on specific questions are as follows:

Questions 4.5, 4.12, and 4.13:

We would suggest ordering questions 4.5, 4.12 and 4.13 together in a group since they all relate.

Question 4.7:

The justification provided in the answer creates confusion regarding the difference between leased land used to explore and mine for natural resources compared to the intangible right to explore and mine for natural resources. We suggest that the response be as follows in order to avoid confusion:

“No. In this example, the land itself is the underlying asset being leased, and therefore the lease would not be excluded from Statement 87. Paragraph 8a of Statement 87 excludes “leases of intangible assets, including rights to explore for or to exploit natural resources such as oil, gas, and minerals.” That exclusion applies only when the underlying asset in the lease is the intangible right to those resources. If the government only provided the company with a lease, easement or permit that conveyed the right to explore for oil and gas

but did not convey control of the right to use the land, then that lease would be excluded from Statement 87.”

We also suggest that GASB clarify whether or not a land lease that expressly limits the use of the land to exploration or extraction be considered a lease under GASB 87.

Question 4.8:

The justification provided in the answer creates confusion regarding whether the leased land would be excluded or not. We suggest that the response be as follows to avoid confusion:

“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.” That 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 that lease would be excluded from Statement 87.”

We also suggest that GASB clarify whether or not a land lease that expressly limits the use of the land to growing crops, harvesting timber, or grazing animals would still be considered a lease be considered a lease under GASB 87.

Question 4.21:

It appears that this answer represents a correction to the language of the standard. If the language in the original standard does not conform to the Board’s intent, then the standard should be amended. We are not in favor of fixing incorrect wording in a standard with implementation guidance, since this would not conform to the hierarchy of generally accepted accounting principles.

Question 4.25:

We appreciate the clarification that capitalization thresholds can be used to report leases. This had been a point of uncertainty since GASB 87 did not address disclosure of capitalization policy for leases and it was not clear whether existing requirements for disclosing capitalization policy in GASB Codification 2300.106.a(8).

It would be helpful if the answer to this question could confirm whether existing disclosure requirements for capitalization policy are expected to apply to leases when a capitalization threshold is used. Also, it would be helpful to reference guidance in Question 4.54 of Implementation Guide 2016-1 (which directly addresses capitalization levels) as well as Question 7.4.1 of Implementation Guide 2015-1 (which addresses materiality generally).

Question 4.31:

This question and answer strongly reinforces the treatment of variable payments even when the variables are reasonably determined.

Question 4.35:

This answer would be more helpful if it also included guidance on the accounting that would be involved when the prepayment is initially recorded and at the commencement of the lease.

Also, this question and answer discusses the accounting for prepaid leases from only the lessee point of view. It would be helpful to also address the accounting for the lessor point of view in a separate question since it is not considered a financing from that point of view.

Question 4.44

Please clarify if lease assets are to be included in the schedule of changes in capital assets as separate line items by major classes of capital assets, which we would presume, or in a schedule of changes by major classes of lease assets within the same disclosure.

Question 4.52:

This question and answer states that lease receivables should be amortized using the interest method. What about the associated Deferred Inflow? Could this be amortized using either straight line or the interest method?

Question 4.62:

If the equipment cannot be used without the software, we are unclear on why the software would be considered a separate underlying asset. This question and answer could be improved by including more facts or explanations.

Question 4.65 and Question 4.70:

These questions and answers provide stated characteristics to consider when applying professional judgement that deal with reasonableness and determining effects on lease accounting and reporting. These types of examples and listings of characteristics are exceedingly helpful in the consistent application of this standard.

Appendix B Illustrations (all):

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

Moreover, the illustrations are very simple. 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.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (360) 902-0471.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Rapozo", with a long horizontal flourish extending to the right.

Mark Rapozo, CPA
Assistant Director of Local Audit