



April 29, 2019

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
PO Box 5116
Norwalk, Connecticut 06856-5116

Via e-mail: director@gasb.org

RE: Project No. 3-24 - Exposure Draft - Implementation Guide on Leases

Dear Mr. Bean,

Moss Adams LLP appreciates the opportunity to share our comments on what we believe are important issues related to lease accounting that were not addressed in the Governmental Accounting Standards Board's (GASB or Board) Exposure Draft of its Proposed Implementation Guide on Leases (ED).

Moss Adams LLP is the one of the 15 largest accounting and consulting firms in the United States. Our staff of over 2,900 includes more than 300 partners. Founded in 1913, Moss Adams LLP provides accounting, tax, and consulting services to public and private middle-market businesses, not-for-profit and governmental organizations.

We appreciate GASB's efforts to improve the quality of accounting and financial reporting for leases to provide financial statement users a clear understanding of the assets used and obligations due for lessees, and of amounts to be collected and earned for assets in use by lessors. Overall, we support the Board's ED as it addresses a number of questions and issues we had noted related to how governmental entities will implement GASB Statement No. 87, Leases (Standard), and it provides several examples of specific issues that have been identified when determining if an arrangement meets the definition of a lease. However, we have identified the following areas that were not addressed in the ED for which we believe additional guidance is needed to ensure consistent implementation of the Standard.

Certain Regulated Leases (GASB 87 ¶42-43) – The first area that we believe the ED needs to address to clarify that the accounting treatment of certain regulated leases only applies to lessor recognition of these leases. The placement of the guidance in the Standard and the disclosure requirements listed makes it clear that the guidance is intended only to apply to lessors. Because no similar guidance was provided for lessee accounting, we understand that the Standard does not allow for a lessee to record lease payments for certain regulated leases on a similar payments-made basis, and that such leases would follow the general lessee accounting treatment in the Standard. If that is what is intended, we recommend that implementation guidance be added to the ED to clarify that lessees are not allowed to use a similar type of accounting for these certain regulated leases.

Additionally, it would be helpful to include in the ED examples of other types of federally regulated leases, in addition to the examples provided in the Standard for Department of Transportation and Federal Aviation Administration regulations. For example, certain leases of Indian Tribal assets by a Tribe to a third party are subject to the regulations of 25 CFR Part 162 which require the approval of either the Department of



Interior's Bureau of Indian Affairs (BIA), or the Tribal Government itself if the BIA has approved tribal leasing regulations under the HEARTH Act.

Lessor Accounting – Lease Receivable (GASB 87 ¶47) – The second area where we believe that further guidance is needed is regarding the interest rate to be used to discount future lease payments by the lessor. While ¶47 indicates that an implicit interest rate may be used, many leases do not have a stated or implicit interest rate. Also, using guidance in Statement 62 for computation of implicit interest rate for each individual lease may be impractical for entities that have hundreds of leases, such as airports and seaports. We recommend that the ED provide other options for identifying a reasonable interest rate, and allow that the same interest rate could be applied to a group of similar lease agreements.

Intra-Entity Leases (GASB 87 ¶88-89) – The third area that we believe needs to be addressed is to clarify additional questions related to the presentation and disclosure of intra-entity leases. We think the guidance that reporting requirements of the lease standard do not apply to leases between a primary government and its blended component units may be confusing. Although this makes sense in the context of whether these leases should be reported in full reporting entity-wide (general purpose) financial statements, we're concerned that some may read this guidance and believe these leases are not required to be reported in either the stand-alone financial statements of the blended component unit or the primary government. We recognize the language in ¶88 indicates that leases with or between blended component units should be eliminated when aggregating them with those of the primary government, which implies that these leases would be reported and disclosed in a stand-alone financial statement. However, a more explicit statement in the ED would help ensure that these types of leases are consistently reported in the stand-alone financial statements of any blended component unit or if primary government financial statements are issued.

In addition, we noted that the Standard does not include specific requirements or information on disclosures of intra-entity leases. We believe financial reporters would benefit from implementation guidance discussing the disclosure requirements that apply.

Related Party Leases (GASB 87 ¶90-91) – The final area that we believe needs to be addressed is to clarify who is a related party when applying the requirements in ¶90-91. Although ¶91 indicates that you should look to the guidance in Statement 62 for how to account for a transaction where the related party is reported as an equity method interest, the guidance does not reference the guidance in Statement 62 ¶54 that defines who should be considered a related party for purposes of applying the guidance. We believe that additional implementation guidance is needed to clarify that the definition of related parties within Statement 62 should be followed.

◇ ◇ ◇ ◇ ◇ ◇ ◇ ◇

We hope that you find our comments and suggestions meaningful. If you would like to discuss our comments or require further information regarding our response, please contact Erica Forhan in our Professional Practice Group at 206-302-6826 or by e-mail at Erica.Forhan@mossadams.com.

Respectfully,

Moss Adams LLP
Moss Adams LLP