



May 10, 2019

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

VIA Email: director@gasb.org

Dear Mr. Bean:

The National Assurance Office (NAO) of Eide Bailly LLP has reviewed the provisions of the Governmental Accounting Standards Board (GASB) Proposed Implementation Guide *Leases*. We believe the more information that is available to practitioners to assist in implementing this complex standard, the better.

There will undoubtedly be more questions that may be applicable to the *Leases* standard as governments implement. As an example, some of our clients are involved in ground leases. The building(s) on top of the ground may be a financed purchase. But the ground itself does not convey. Assuredly, the ground lease is a lease in accordance with GASB-87 as the lessor holds title to the land. In question 4.46 this issue is somewhat addressed, but in the context of conveying the right of a building to a third party. We would suggest adding a question involving the lessee retaining the right or the lessee instead being involved in a financed purchase.

In another case, leases to exploit natural resources are excluded from the provisions of GASB-87. However, it is unclear if air rights are excluded. As an example, a city builds a deck over a freeway to reconnect portions of the city and to install a park. The land is leased to a not-for-profit to run the park and provide entertainment facilities. Does GASB-87 apply?

In question 4.48, several our clients are investment trust funds, 529 plans and defined benefit plans. Some are component units of larger governments that are fiduciary in nature and others are simply fiduciary funds. It is a common practice for those entities to own capital assets and present them as investments, typically using title holding companies to shield the plan. The companies are valued using the equity method as they are 100% owned by the plan. Alternatively, they are valued at fair value. It is a common practice for lessees of such capital assets to be the primary government or unrelated entities. The question includes a conveyance, but the answer does not say the transaction is a lease. Therefore, it is unclear what the debits and credits would be for the lessor (the plan), due to the provisions of GASB-87, par. 41. It would also seem to conflict with GASB-87, par. 89 for leases between the primary government and discretely presented component units.

We also suggest that question 4.79 be expanded and perhaps be turned into an illustration. Many practitioners will be converting from operating leases as of the date of the earliest period restated. Indeed, the government will be measured using the facts and circumstances as of the beginning of the period and governments are not required to estimate what the lease asset would have been if it initially had been recognized as a capital lease and amortized. Instead, the lease liability is used as a practical expedient to determine the asset. But the conversion entry would be appreciated for many of our clients.

We thank you again for your consideration. You may reach me at 208.383.4753 for further clarification of our response. You may also reach Sara Kurtz at 970.999.8928 or Eric Berman at 208.424.3524 who assisted in preparing this letter.

Sincerely,

A handwritten signature in black ink that reads "Scot Phillips". The signature is written in a cursive, slightly slanted style.

Scot Phillips, CPA
Director of Assurance Services
Eide Bailly LLP

Cc: Sara Kurtz, CPA Partner
Eric Berman, CPA, CGMA Partner