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Mr. David R. Bean
Director of Research and Technical Activities
Government Accounting Standards Board (GASB)
Project No. 3-24
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Implementation Guide of the Governmental Accounting Standards Board -
Leases

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to GASB's *Implementation Guide—Leases* exposure draft. ALGA represents 272 audit organizations comprising more than 2,200 individuals. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the proposed *Implementation Guide—Leases* and appreciate the GASB providing guidance that clarifies, explains, and elaborates on GASB Statements. Overall, we believe the Implementation Guide meets its intended objective and will assist governments in applying the requirements of Statement 87. However, to further enhance the user's understanding and application of Statement 87, some questions and answers could be modified as discussed below.

- For consistency, we recommend including examples for all the circumstances listed in Statement 87 paragraph 8. Questions are currently provided only for circumstances in 8a, 8b, and 8f.
- For consistency, we recommend including examples for all the circumstances listed in Statement 87 paragraph 21. Questions are currently provided only for circumstances in 21b, 21c, 21f, and 21h.
- In the Implementation Guide, the word "noncancellable" is spelled differently than it is in Statement 87. To improve searchability of the documents, consider changing the spelling of "noncancellable" in the Implementation Guide to the spelling used in Statement 87.

- To improve upon the readability of the questions and answers, consider providing the answer first and then the explanation last to make all answer paragraphs deductive. For example, in Question 4.14 the last sentence is the direct answer (“In this example, the lease term beings...”) and should be moved to the start of the answer. Other answers that would benefit from similar revision are 4.16, 4.26, 4.43, 4.50, 4.54, 4.56, 4.61, and 4.80.
- Consider noting what the correct accounting treatment would be for those answers that say Statement 87 does not apply. For example, in the answer to Question 4.3, state what the correct accounting treatment of a permanent easement would be. Other answers that would benefit from similar revision are 4.6, 4.13, and 4.48.
- **Question 4.3:** Because the answer provides two examples but is not meant to be an all-inclusive list of easements excluded from the scope of Statement 87, consider reversing the question from “Are certain easements excluded from the scope of Statement 87?” to “Are all easements included in the scope of Statement 87?” The answer would then change to “No” and would avoid giving the impression that it is a complete list of “certain easements.” Also, the sentence “An easement is a lease only if it meets the definition of a lease” is redundant with the rest of the paragraph and should be deleted.
- **Question 4.6:** To improve readability, consider revising the first sentence of the answer from “If they meet the criteria to be a lease, including the control criterion, then such agreements are leases” to “Such agreements are leases if they meet the criteria to be a lease, including the control criterion.”
- **Question 4.13:** To improve the clarity of the answer, consider revising the end of the question and the beginning of the answer from “Does this contract result in a lease of solar equipment? No.” to “Is the government leasing the solar equipment? No, this is a supply contract.”
- **Question 4.17:** To improve the clarity of the answer, add “Yes” to the beginning of the answer.
- **Question 4.18:** To improve the clarity of this question and answer, consider revising the question from “Are the cancellable periods excluded from the lease term?” to “Are the cancellable periods included in the lease term?” Then add a sentence to the beginning of the answer paragraph like, “Yes, but only if the lessee determines it is reasonably certain that it will not exercise the option to terminate the lease.”
- **Question 4.29:** To improve the clarity of the answer, add to the beginning of the answer paragraph: “It depends on whether the maximum amount appears reasonable.”
- **Question 4.30:** To improve the clarity of the answer, add to the beginning of the answer: “\$10,000 for each lease.”
- **Questions 4.59 and 4.60:** To improve upon readability, consider reversing the order of these questions and answers, because question 4.60 explains the purpose of the incentive payment, which provides useful context when reading question 4.59.
- **Question 4.67:** To improve the clarity of the answer, add to the beginning of the answer paragraph: “Not necessarily.”

- **Question 4.69:** To improve the clarity of the answer, consider revising the answer because it could be misunderstood that the 5-year extension is not considered a lease modification. The question states that “...during the lease term, the lessor and lessee agree to extend the contract for five years...,” which implies that the cancellable period consideration is not necessary. Therefore, consider revising the answer to state:

“A – At the time both parties (the lessor and lessee) agree to extend the lease term for five years, the amendment extending the lease term would be considered a lease modification, due to the guidance found in Paragraph 71 of Statement Number 87. However, the period before both parties agree to extend the lease term would be considered cancellable, and therefore, not subject to the lease term reassessment guidance in Paragraph 15 of Statement Number 87.”

Respectfully submitted,

Nicole Rollins
Chair, Professional Issues Committee

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