May 24, 2016

Via Electronic Mail

Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Response to GASB Exposure Draft – Leases

The Washington State Auditor's Office appreciates the opportunity to give input on the GASB’s proposed standards on Leases (Project No. 3-24E). In our constitutional position 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 900 financial audits of the State’s agencies and all types of local governments along with their component units.

We commend the Board for closely following FASB and IASB projects on this subject. It is our view that convergence on accounting standards for private, non-profit and government entities is critically important to users, preparers and auditors to reduce costs and support the reporting objectives described in GASB Concept Statement 1 paragraphs 74-79. While many financial statement elements may benefit from different standards for governments due to the unique environment, activities and user needs in this sector, leases are not one of those elements as they are used in generally the same ways and for the same purposes in all sectors. Moreover, a stated purpose of the exposure draft is to make accounting parallel between lessor and lessee. Since many lease transactions occur between public and private entities, differences between accounting standards for government and private sectors will undermine this purpose.

Accordingly, we noted three significant differences between the exposure draft and standards issued by the FASB for private and not-for-profit entities and encourage the Board to consider convergence on these points, as follows:

1. Paragraph 37: the requirement for all leases over 12 months to be reported at present value appears to subject many more leases to discounting calculations than FASB standards, which only require measurement at present value for direct financing leases and allow operating leases to be capitalized in a more simple manner at the full amount of the lease, amortized on a straight-line basis.
2. Paragraph 53: requirements to account for lease and non-lease components separately appears more restrictive than ASC 842-10-15-29 and 37 provisions, which allow lessees to choose not to report separate components when effects are insignificant or based on accounting policy.


We see no reason why governments should report differently on these points, especially since differences will likely result in higher cost and complexity for government financial statement preparers and auditors.

In addition to urging convergence on these three significant points, we also suggest:

- Paragraph 47: converging with ASC 842-10-55-37 regarding obligations to return underlying assets to their original condition.

- Paragraph 69-70: converging with ASC 842-20-35-14 and 842-20-40-3 regarding reporting of the original and sublease only if the sub-lease does not relieve the original lessee of the primary obligation under the original lease - and otherwise reporting as a termination.

- Paragraph 76: adding guidance on whether - and if so, how - to report interfund leases to the proposed reporting guidance for intra-entity leases with component units.

- Appendices: including examples within the appendices for this important and complex topic. In particular, we would suggest using the same fact patterns as used for the FASB so as to highlight similarities and differences.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (360) 902-0375.

Sincerely,

Barb Hinton
Deputy Director of Quality Assurance