May 26, 2016

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Project No. 3-24E

Dear Sir:

We appreciate the opportunity to comment on GASB’s Exposure Draft, Leases, issued on January 25, 2016.

We agree with GASB’s new accounting model for capital and operating leases. The proposed standard will add significant informational value to the financial statements. However, we would like to comment and present suggestions related to three issues:

1- Sale and Leaseback (Paragraph 72)

GASB has indicated that “the sale and leaseback portions of a sale-leaseback transaction should be accounted for in financial statements prepared using the economic resources measurement focus as two separate transactions – a sale transaction and a lease transaction- except that the difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources to be recognized in the resource flows statement over the term of the lease.”

We agree with GASB’s approach which simplifies the accounting treatment of gains or losses resulting from sale and leaseback transactions. Using this approach, GASB has eliminated the previous requirements of GASB Statement No. 62, which provided that the recognition of gain or loss depends on the extent to which the seller-lessee retains use of the property. We suggest, however, that the requirement of paragraph 242(c) of GASB Statement 62 be retained. This paragraph requires immediate recognition of a loss if the fair value of the property at the time of the transaction is less than its undepreciated cost. In such cases, recognition of the loss would provide more useful information about the fact that the government sold an asset at a loss and leased it back. This type of information would not be clearly presented if the loss is recognized as a deferred outflow of resources.
2- Lease-Leaseback Transactions (Paragraph 75)

GASB also indicated that “a lease-leaseback transaction should be accounted for as a net transaction. Both parties to a lease-leaseback transaction should disclose the gross amounts of the lease and leaseback.” We suggest that the lease-leaseback transaction should be accounted for as two separate transactions. A government that leased land to a developer to build a school building would recognize lease receivable and deferred inflow of resources upon entering into the lease contract for the land.

When the government leases the school building back (after its completion), an intangible right-to-use lease asset and lease liability would be recognized for the school building lease contract. There are two different assets included in the lease-leaseback transaction. Therefore, it is more reasonable and appropriate to account for each asset separately.

3- Effective Date and Transition (Paragraphs 79 and 80)

In addition, GASB indicated that “changes adopted to conform to the provisions of this Statement should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Statement should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period presented.” Additionally, GASB stated that “leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation.”

We suggest that the previous accounting model be continued for existing lease contracts that will expire within two years or less from the adoption date of the Statement. The new accounting model should be applied to all new lease contracts and to the remaining lease payments of the existing lease contracts that will not expire within two years from the adoption date of the Statement. This would make the transition much easier, reduce the restated amount of the beginning net position, and also allow GASB to move up the effective date of the Statement to December 15, 2017, instead of 2018. A government will exercise unjustifiable efforts to change the accounting model for a 20 year-old lease contract that will expire in a year or two, while the benefits of doing that are not actually observable. GASB questioned the prospective application of the Statement and the usefulness of information provided if lease transactions are accounted for under different models. We believe that using two accounting models during a short transition period would not have any significant negative impact on the usefulness of the financial information. Additionally, a note should be added to describe the facts and circumstances of the transition period, and any existing lease contracts that are still accounted for under the old accounting model.

Sincerely,

Bill Slack
Deputy Chief Financial Officer and Controller