To: Director - GASB  
Subject: Pennsylvania's comments on GASB's Leases Exposure Draft (Project No. 3-24E) for GASB

Good afternoon Dave,

On behalf of Chief Accounting Officer Anna Maria Kiehl, we are pleased to provide comments on the Governmental Accounting Standards Board’s (GASB’s) Exposure Draft regarding Leases, issued on January 25, 2016.

We believe the Exposure Draft’s intent is to provide less complex lease accounting; however, we wish to preface our comments by observing that the recognition of lease contracts on the statement of net position poses unique and difficult challenges. While the proposal accomplishes the goal of recording lease obligations on the statement of net position, we are not convinced that it significantly improves the information presented to financial statement users when compared to current lease reporting and disclosure requirements.

Overall, we do not conceptually agree with the foundational principal that all leases are financings of the right to use an underlying asset. There are significant differences between temporarily renting office space and leasing equipment for its entire useful life. Likewise, leases are significantly different than financings such as debt issuances. If the GASB moves forward with the current proposed Statement, we strongly suggest that consideration be given to changing the maximum possible term for a short-term lease, as defined in paragraph 60, from 12 months to 36 months. We noted there were a number of respondents to the Preliminary Views document that requested consideration of a longer period in the definition of short-term lease. We believe that changing the definition of a short-term lease from 12 to 36 months would provide some measure of cost relief by significantly reducing the reporting requirements for those leases, while not significantly impacting the intended benefit the GASB is seeking to gain by implementing this standard.

Additionally, by having lessees recognize an intangible lease asset without having lessors derecognize the asset underlying the lease, we believe that the same underlying asset is being reported on both the lessee and lessors statements.

We also recommend that the detailed disclosure requirements for lessees and lessors be reconsidered by the GASB from a cost vs. benefit perspective.

Further, we believe the proposal’s initial implementation costs, as well as the ongoing cost to maintain these reporting requirements will far outweigh the expected benefits when considering the following factors:

- Currently the dollar amounts of commitments for operating leases are disclosed in the notes to the financial statements. Adding lease liability recognition and an offsetting intangible lease asset to the statement of net position will not provide significant new information for financial statement users. Many governments, such as the Commonwealth of Pennsylvania, would be responsible to implement new and very detailed accounting and reporting processes to manage and value thousands of leases on an ongoing basis making this an extremely costly standard to implement and maintain. Implementation would involve significant changes to existing accounting processes and systems.
• Lease contracts have innumerable clauses with varying degrees of complexities that pose significant obstacles when one attempts to report these contracts fairly and accurately on the statement of net position. It would be difficult to accurately and consistently determine lease terms as required by paragraphs 9 through 12. While it should not be difficult to determine the noncancelable lease period, it can be challenging to ascertain whether it is “reasonably certain” that lessees will either exercise an option to extend a lease or not exercise an option to terminate a lease. Additionally, many contracts have both lease and non-lease components in which individual prices are not specified by component. It would be extremely time consuming to allocate prices to components of each contract and account for them as required by paragraphs 52 through 57.

• Paragraphs 19 to 23 and 42 to 44 would require many governments to constantly remeasure the value of their lease liabilities and receivables due to frequent changes in lease contract terms and conditions. Discount rates, Lease Assets, and Deferred Inflows of Resources would also have to be reevaluated or remeasured when there are changes to the value of lease liabilities and/or receivables.

Based on the aforementioned information, we strongly urge the GASB to give further consideration to the cost/benefit discussion in ED Appendix B, paragraphs 122 through 128. With the emphasis that governments place on the efficient use of taxpayer resources, it is imperative that a reasonable, cost vs. benefit approach be taken for formulating new accounting standards. We appreciate that GASB readily acknowledges the obvious burden this proposed standard would impose on governments. In light of the complexities of each lease and the volume of leases to be maintained, we ask the GASB to reconsider whether the costs of this proposed standard on governments significantly outweigh any improvements to financial reporting to be recognized by our financial statement users.

We appreciate the opportunity to comment on this document and hope you find our comments helpful. Please contact me with any questions at mburns@pa.gov or Anna Maria Kiehl at akiehl@pa.gov.

Regards,

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