May 2, 2016

Mr. David R. Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: Project No. 3-24E: Proposed Statement of the GASB Leases

Dear Mr. Bean:

On behalf of the State of Washington Office of Financial Management (OFM), I am pleased to offer the following comments on the Governmental Accounting Standards Board’s (GASB) Exposure Draft (ED) on Leases, Project No. 3-24E. OFM serves as the state’s controller, issuing all state accounting and reporting policies as well as the state’s Comprehensive Annual Financial Report (CAFR). We appreciate the opportunity to provide comments as this proposal affects nearly every reporting entity.

Washington supports reporting that provides complete and accurate disclosure of financial data. Further, we agree with the Board’s definition of a lease as a contract that conveys the right to use a nonfinancial asset for a period of time in an exchange or exchange-like transaction and that a lease term would be defined as the period during which a lessee has a noncancellable right to use an underlying asset. We think that the reporting approach presented in this ED could have value for organizations whose primary business is leasing.

Agencies typically enter into leases for more than 12 months for routine office equipment such as copiers and postage machines. Some of the leases incorporate a maintenance service component as well. Under current guidance, some are considered capital leases and some operating leases. The effort to separate every lease agreement into its’ varying components at every department in every agency would be significant. Additionally, the effort to identify each lease amendment, re-measure the lease liability, and record resulting adjustments would add considerably to the work effort. And, when all is said and done and the resulting detail is rolled up for financial reporting at a statewide level, the impact to the financial statements would not even be apparent to most users of the financial statements.
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One of the objectives of the standards proposed in this ED is to provide a single approach to financial reporting for all leases. Instead of focusing on a one size fits all for lease reporting, it seems more logical to focus on the substance of the transactions – some leases are truly operating in nature – or on major transactions that would have an impact on financial reporting. When leases are used as a financing mechanism for a significant asset, such as a building, we agree that it would be appropriate to break the lease into its components and report the substance of the transaction – which we currently do. And, while the substance of the transaction is really acquisition of a building, if the Board feels it is important to categorize it as an intangible asset, we could go along with that.

We believe that the standards proposed in this ED would make the reporting of leases significantly more complex than the current model while potentially adding minimal value in financial reporting. In addition, by allowing for professional judgment in terms of materiality levels or major classes reported, the proposed standards could lead to less consistent reporting. The exact opposite of what the GASB intended. We believe that the current reporting requirements and disclosures appropriately report the substance of leasing activity.

As we have stated in previous responses to various due process documents, when considering additional reporting and disclosure standards, we ask the Board to bear in mind the continued pressures on governments to produce increasingly earlier financial statements and the ongoing constraints caused by reductions to staffing. We also ask the Board to seriously take into consideration the adage that “less is more.” The Board’s admirable goal to provide users with more and more information will not necessarily result in better reporting. Focusing on the areas of highest importance and presenting that information in a concise manner would serve the users far better in our opinion.

Sincerely,

[Signature]

Brian Tinney, Assistant Director  
Accounting Division