March 6, 2015

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. 3-24P: 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) Preliminary Views (PV) on Leases, Project No. 3-24P. 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 PV could have value for organizations whose primary business is leasing.

However, we do not see the proposed standards as appropriate for Washington state agencies. In our opinion, the proposed standards would be onerous for the largely immaterial leasing activities of state agencies while not adding significant value to the users of the financial statements. To ensure financial statements are useful, disclosures should be proportional to their relevance of the overall financial operations of the entity.

Agencies typically enter into leases 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.
One of the objectives of the standards proposed in this PV 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 PV would make the reporting of leases significantly more complex than the current model while potentially adding minimal value in financial reporting. We believe that the current reporting requirements and disclosures appropriately report the substance of leasing activity.

The Board is undertaking this project during the final stages of similar projects of the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB). Our hope is that the Board will focus more on the similarities between private-sector and public-sector leasing arrangements and closely follow what the FASB and IASB do so that the users of financial statements are not confused by very disparate standards.

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,

Wendy Jarrett, Assistant Director
Accounting Division