March 6, 2015

Mr. David R. Bean
Director or Research and Technical Activities
Government Accounting Standards Board (GASB)
Project No. 3-24P
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Preliminary Views on Major Issues Related to Leases

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the GASB’s Preliminary Views Document on Major Issues Related to Leases. Our organization represents more than 300 audit organizations and about 2,000 members. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

The objective of this Preliminary Views Document is to present the Board’s current views on what it believes are the most fundamental issues related to lease accounting in order to solicit comments from constituents. Respondents are requested to give their views on all matters in the Preliminary Views, including aspects with which they agree and those with which they disagree, and to explain the reasons for their views, including alternatives that they believe the GASB should consider.

Comments on the Fundamental Issues by Chapter:

In general, we agree with the Preliminary Views but have made some comments for your consideration. Overall, the changes make the guidance more subjective, yet simpler to understand how to account for leases.

Chapter 2 – Applicability and Scope:

- Par. 5, Definition of a Lease – Agree that “contract” is stronger than “agreement” and that “nonfinancial asset” captures more classes of underlying assets.
- Footnote 1 – Clearer guidance as to what makes a transaction an “exchange-like” transaction would be helpful.
• Suggest adding examples of nonfinancial assets that are not capital assets to provide clarity.

• Par. 8 – With regard to 8b, 8c, and 8d, we propose that the question is not whether there is “no compelling reason” to make them subject to this guidance, but rather, whether there is a compelling reason to exclude them. We see no reason to exclude them and cannot see the difference between these and other intangible assets discussed in Ch. 4, par 3. They should be treated similarly.

• Contracts with Multiple Components:
  o Par. 10 – While we agree in general with this guidance, one of the components may sometimes be a de minimus amount with respect to the entire contract. For example, a waste removal contract often includes payments for the dumpster and for the actual waste removal. The amount tied to the dumpster is often less than 5 percent of the fee; the substance is waste removal and the lease of the dumpster is incidental. Although there is an exception provision in Par. 13, the exception appears to relate only to situations where prices for individual components are not reasonably determinable. Suggest considering a de minimus exception for components that are incidental to the substance of the lease (as in the waste removal services example provided).
  o We note that in Chapter 4, Par.21, “the Board believes that these are specific applications of the general provision in all GASB pronouncements that guidance does not need to be applied to immaterial items.” We propose that a reference to the materiality consideration could be included earlier, in Chapter 2, Par. 10.

Chapter 3 – Lease Term:
• Par. 2 – Agree; also consider that the proposed definition aligns with the matching principle (expense and revenue incurred in the same period).
• Par. 4d – Consider adding substantial penalty in the examples of economic disincentives.
• Par. 6a – Agree, but consider clarifying when the lessee is considered to have “elected” to exercise the option. Does such “election” require notification by the lessee to the lessor that such election has/will be made?
• Consider adding a flow chart for determination and reassessment of lease term to illustrate the decision-making factors.

Chapter 4 – Lessee Accounting:
• Par. 7 to 20 – Consider using an example to illustrate the necessary accounting entries required (side by side with lessor (Chapter 5)).
• Par. 8 – Consider clarifying whether non-BPOs and termination penalties that are treated as contingencies should be recognized separately from the underlying lease liability.
• Par.10, Borrowing rate – Consider providing some examples of acceptable alternatives for discount rate for additional guidance.
• Par. 16 – Consider providing clarity on how to treat a land lease (the leased asset) that has been amortized and is subsequently purchased (for example, if there is an adjustment to historical cost or FMV at purchase).
Chapter 5 – Lessor Accounting:
- Par. 4 to 15 – Consider using an example to illustrate the necessary accounting entries required (side by side with lessee (Chapter 4)).

Chapter 6 – Short-Term Lease Exception:
- Title – suggest “Short-Term Lease Exception Requirement” to emphasize that it is a requirement, as noted in Par. 6, rather than an accounting policy election.
- Consider if there could be other exception requirements, such as materiality of individual lease transactions in terms of dollar value. However, if the cumulative value of individual immaterial lease transactions is material to the financial statements, then they should be measured and disclosed as described in this Preliminary Views.

Chapter 7 – Lease Terminations and Modifications:
Agree.

Chapter 8 – Subleases and Leaseback Transactions:
Agree.

Chapter 9 – Leases with RP and Intra-Entity Leases:
Agree.

Thank you for the opportunity to comment on the Preliminary Views. The accounting standards are important to our members, and we hope that our comments are helpful to you.

Respectfully submitted,

Harriet Richardson
Chair, Professional Issues Committee

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