Idaho State Controller’s Office

February 10, 2015

Comments to GASB regarding the Preliminary Views document issued on Leases.

We appreciate having the opportunity to comment on this preliminary views document. While we agree with many of the preliminary views concepts, we offer the following comments:

Chapter 2 - Applicability and Scope

We agree with the definition of a lease as stated in paragraph 4. We believe the proposed definition will increase comparability and consistency between financial statements of different governments.

Paragraphs 10-11, we are concerned about the practicability of separating and accounting for each component of a multiple component lease. The majority of the leases we have analyzed thus far do not break out the multiple components nor is it practical in many cases to measure the lease component and the service component separately. As a result, most of the leases we will report under the proposed guidance will be a mixture of leases which are NOT separated into lease and service components (the majority) and leases which do have the components separated (the minority). We believe this will negatively impact the comparability and consistency of financial statements.

Additionally, the cost to break out the separate components of hundreds of leases is a significant undertaking for the reporting entities.

Chapter 4 – Lessee Accounting

Paragraph 22, g; Is this proposed disclosure to be presented in the Lease Note or in the Commitment Note? The guidance as presented is unclear to us.

Chapter 5 – Lessor Accounting

Paragraph 12 requires the lessor to record a deferred inflow of resources at the inception of the lease and then recognize revenue over the term of the lease. For a small government this would not be difficult. The State of Idaho has thousands of leases, which will require us to spend thousands of hours reviewing and tracking leases annually in order to reclassify payments so that the deferred inflow is reduced.

Paragraph 14 requires the lessor to continue to recognize the underlying asset and also the receivable (value of the payments). This, in effect, doubles up the balance sheet. We believe the GASB should consider proposing that the lessor remove the asset and replace it with the receivable.

Paragraph 16, a; the cost to analyze the details of thousands of leases in order to provide disclose general descriptions would require a significant undertaking for reporting entities. As an example, the Idaho Department of Lands estimates they have more than 3,000 leases. They reported to us that it would take a minimum of 45 minutes to evaluate each lease. Additionally, the Department would need
major system modifications to track the multiple components of each lease including the lease terms which may change annually.

Chapter 6 – Short-term Lease Exception

We agree with the proposed definition of a short-term lease. However, we do have some significant concerns. First, in paragraph 9 the Board states that they believe “there would be little incremental cost to provide...” information related to short-term leases. We strongly disagree with the Board’s statement. The State of Idaho has been participating in the Leases Field Test and many of our state agencies have expressed concern about the effort and significant increase in hours and system modifications to track short-term leases. Even if our Office set a materiality threshold for the reporting of leases, the proposed standard, as we understand it, would necessitate the tracking of very short-term contracts/leases including car rentals and hotel rooms.

Perhaps the Board would consider modifying the short-term exception to include leases longer than 6 months, but less than 12 months. We believe this would help eliminate leases that are very short-term in nature; thereby, eliminate the time consuming task of tracking these leases.

Chapter 8 - Subleases and Leaseback Transaction

While we understand the GASB's reasons for paragraph 2, we are concerned that we are again grossing up the balance sheet with two assets and two liabilities.

We thank you again for the opportunity to comment on the proposed changes to lease accounting.