March 6, 2015

GASB
Attn: Director of Research and Technical Activities
Project No. Project No. 3-24P
Email: director@gasb.org

Thank you for the opportunity to comment on the GASB Preliminary Views (PV), Leases. The Financial Reporting Section within the Wisconsin State Controller’s Office is responsible for preparing the State of Wisconsin’s Comprehensive Annual Financial Report (CAFR).

We have reviewed the PV and considered it from a conceptual and practical viewpoint. We are not convinced that the proposed requirements will significantly improve information provided to users of the financial statements. We also have concerns about the additional work that will be required to comply with the standard on an on-going basis. As a result, we believe at least some modifications should be considered prior to implementation of a new standard.

Conceptually we are not convinced that all leases are “financings” of the right to use an underlying asset. GASB places forth the financing concept to advocate reporting of principal and interest for all leases. However, we do not believe that entering into a lease to rent a building carries the same legal burden as, for example, the issuance of general obligation bonds by a government. The proposed PV places them in the same category which we struggle to accept as fully appropriate in terms of how users of the financial statements may interpret the information. We believe the fact that governments may choose not to appropriate funding for leases is a significant difference between public and private sector lease obligations. Therefore, the existing standard requiring governments to disclose long term operating lease obligations rather than report them on the balance sheet may be a more reasonable approach for governments to follow.

We do not agree with Chapter 1, paragraph 10 of the PV which indicates the proposed approach would be less complex. The PV would remove the step currently needed to divide leases into capital or operating categories. However, paragraph 9 of Chapter 2 requires us to analyze all our contracts to determine if there was a transfer of ownership or a bargain purchase option. If so, those contracts would be treated differently. Therefore, little work may be saved in terms of not having to apply the existing capital versus operating labels because we would be required to determine and apply other labels.

Further we found the PV added many complexities. These complexities will result in significant additional work to determine and make additional entries required for leases currently categorized as operating leases. For example:

- To break lease costs into principal and interest components, a discount rate would have to be determined and applied to each lease and an amortization schedule prepared.
- We expect the amortization schedules would have to be recalculated annually based on the State’s own incremental borrowing rate because it changes from year to year. While the change from year to year could
occasionally, perhaps, be considered insignificant and disregarded, that would not always be the case.
Ultimately, all amortization schedules would have to be recalculated and applied to the liabilities and
associated intangible assets.
- Each lease would have to be assigned to a GAAP fund and separate adjusting entries recording interest would
  have to be made for those funds, including governmental funds.
- We would have to establish and track intangible assets, determine an amortization schedule and make entries
  for each. Further, we would have to tie changes in leases to specific intangible assets to keep them “in sync”
in the event a lease changed e.g. interest rate change.

This would be very challenging to accomplish for nearly 2,000 leases we currently categorize as operating.
Further, we do not see a benefit to financial statement users in deriving principal and interest components for
operating type leases. If GASB moves forward with changing the lease reporting standard, we believe they
should, at a minimum, consider removing the calculation of principal and interest.

We strongly disagree with the requirement contained in Chapter 6, paragraph 6 which requires the disclosure of
the amount of expenses/expenditures recognized during the reporting period related to short-term leases (12
months or less). GASB indicates this would provide information to users about the magnitude of a government’s
short-term lease activity. However, from a broader perspective we do not believe this disclosure is of value to
users of financial statements. Further, there will be additional burdens to track, compile and report the required
information on top of all the other lease reporting requirements. If this standard moves forward, we suggest
eliminating the requirement for this footnote disclosure because: a) there will be significantly more time and
effort put forth by preparers to report and disclose the old operating leases under the new standards, b) an
overwhelming majority of the old operating leases will be reported and disclosed following the new standards, c)
the proposed lease standard will also affect other significant footnotes e.g. capital assets and changes in long term
liabilities.

Chapter 2, paragraph 8 lists exclusions from the requirements. It was unclear from the PV how the right to use
software should be treated. Under paragraph 7 of the same chapter, it could be construed that contracts to use
software could also fall under the provisions of the lease PV.

Chapter 2, paragraph 9 indicates that contracts that transfer ownership of the underlying assets should be reported
as financed purchases of the asset. However, it is unclear what that would mean in terms of GAAP reporting.
GASB should clarify how purchased assets would be accounted for.

If you have questions on our comments, please contact me at 608-266-3052.

Sincerely,

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Wisconsin Department of Administration

cc: Jeff Anderson, Wisconsin Deputy State Controller
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