NACUBO

National Association of College and University Business Officers

1110 Vermont Ave., NW, Suite 800, Washington, DC 20005

T 202.861.2500 F 202.861.2583

March 9, 2015

Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Project No. 3-24P

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the *Preliminary Views of the Governmental Accounting Standards Board on Major Issues Related to Leases* (PV). NACUBO's comments on the PV were developed with input from member institutions and our Accounting Principles Council (APC). The APC is comprised of experienced business officers from both independent and public colleges and universities.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at approximately 2,500 colleges and universities. In its capacity as a professional association, NACUBO develops accounting and reporting guidance for the higher education community and offers professional development for college administrative professionals on a wide array of financial management and reporting topics.

Overall Comments on the PV
We appreciate the need for users of financial statements to have a complete understanding of an entity's leasing transactions and the degree to which they are leveraged. We also appreciate the Board's goal to provide greater comparability and reduced complexity for lease accounting among state and local governments. We believe, however, that there is an equally important need to provide comparability among GASB and FASB organizations. As you know, the higher education industry is split between the two standards boards with public institutions following GASB and independent

institutions following FASB. This makes comparability difficult and creates confusion for financial statement users. To the extent that differences can be minimized, it benefits the users of colleges' and universities' financial statements.

We believe that many types of leases and the reasons for entering into them (e.g., to minimize initial cash outlays or to reduce exposure to technological obsolescence) are the same among all entities – general purpose governments, governmental businesses (BTAs), not-for-profit entities, and commercial enterprises. As such, we believe that any differences in the accounting for leases across all entities should be based on specific differences in the leasing arrangements, not whether an entity follows FASB or GASB standards. The FASB has recently completed its deliberations on a new leasing standard and has chosen to use a dual approach for both lessor and lessee accounting. Therefore, we urge the Board to reconsider the single approach as proposed in the PV.

Lessee Accounting
The PV indicates that a lessee would record a lease as a lease liability and an intangible asset. It also indicates that the amortization of the intangible asset could be combined with depreciation on capital assets in the financial statements. This seems incongruous as the impact of the depreciation will impact the invested in capital assets, net of related debt net position while the amortization of the intangible asset would, presumably, impact unrestricted net position. It is our belief that most leased assets are akin to capital assets and, therefore, should be reflected similarly in the financial statements. We would suggest that the Board consider the leased asset to be an intangible asset within the invested in capital assets net position category. This would more appropriately allow for the combining of capital depreciation and lease amortization and would most accurately reflect the substance of lease transactions.

We note that in Chapter 4, paragraph 18, the PV addresses leased assets that meet the definition of an investment. While there are many instances in which a lessor may enter into a lease as an investment, we are unable to think of any instances in which that would be the case for a lessee. As such, we would appreciate the Board adding an example to illustrate a situation in which this might occur.

We appreciate the discussion in paragraph 21 of chapter 4 concerning a capitalization threshold or an exception for leases of individually small items. However, in our experience, a multiple-item lease agreement, (for example, an arrangement to lease 500 copy machines), is often viewed as one lease contract by auditors. Consequently, we would appreciate an expanded discussion in paragraph 21.

Lessor Accounting

While we agree that a lessor derecognizing a leased asset may be complex – especially in the case of real estate where different portions of the asset are leased to different parties – we do not believe that a lessor should retain the leased asset on its books along with a receivable for the payments to be received under the lease. Rather perhaps the asset is reclassified from a capital asset to a leased asset; its initial carrying value would equal the deferred inflow of resources under the terms of the lease.

Per paragraph 15 of chapter 5, investment accounting would be followed when the underlying asset meets the definition of an investment. When public higher education institutions lease land or buildings to others, the institution typically has an investment. Related to our earlier comment, we are unable to think of an example that would support a public institution, as lessor, having a leased asset receivable and a deferred inflow of a resource rather than an investment. As such, we would appreciate an illustrative example.

Transition

While the PV does not address transition guidance, we would like to take the opportunity to provide some input to the Board on this topic. Higher education institutions are subject to federal regulations that are monitored by various federal agencies. Significant lead time will be needed to allow for regulatory change. Without sufficient implementation time, the proposed guidance is likely to adversely affect many areas such as debt covenants, OMB compliance, National Center for Educational Statistics requirements, and Equity in Athletics Reporting.

We wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the Board or the staff may have. Please contact me at 202-861-2542 or smenditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy