January 22, 2018

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

Re: Project No. 36

Dear Mr. Bean:

The University of Michigan appreciates the opportunity to provide input on the Proposed Statement of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Majority Equity Interests (the “Exposure Draft”).

The University of Michigan (the “University”) is a state supported institution with an enrollment of over 61,000 students on its three campuses. The University’s financial statements include its individual schools, colleges and departments, the University of Michigan Hospitals, Michigan Health Corporation (a wholly-owned corporation created for joint venture and managed care initiatives), UM Health (a wholly-owned corporation created to hold and develop the University’s statewide network of hospitals, hospital joint ventures and other hospital affiliations) and Veritas Insurance Corporation (a wholly-owned captive insurance company). While the University is a political subdivision of the state of Michigan, it is not a component unit of the State in accordance with Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity (“GASB 14”).

Paragraphs 4 and 5 of the Exposure Draft provide guidance on how to account for a majority equity interest when it meets the definition of an investment in paragraph 64 of Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application (“GASB 72”). Although paragraph 4 directs governments to report and measure the equity interest using the equity method in accordance with paragraphs 205-209 of Governmental Accounting Standards Board Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (“GASB 62”), paragraph 5 states that a subset of entities, including special purpose governments engaged only in fiduciary activities, fiduciary funds, endowment funds or permanent funds, must report and measure the majority equity interest at fair value, as outlined in paragraph 64 of GASB 72. The University does not see a need for this distinction and recommends that any majority equity interest that meets the definition of an investment in accordance with paragraph 64 of GASB 72 be accounted for at fair value.
Paragraph 6 of the Exposure Draft notes that if the majority equity interest does not meet the definition of an investment in paragraph 64 of GASB 72, it should be reported as a component unit, with the majority equity interest reported and measured using the equity method in accordance with paragraphs 205-209 of GASB 62. The University concurs with this proposed approach.

Paragraph 7 of the Exposure Draft provides guidance on how to report a component unit in which the primary government acquires a 100 percent equity interest. In describing how to measure the assets, deferred outflows, liabilities and deferred inflows of the component unit, it refers users to paragraphs 29-42 of Governmental Accounting Standards Board Statement No. 69, Government Combinations and Disposals of Government Operations ("GASB 69"). Concerns relative to this proposed guidance are as follows:

- Paragraph 7 of GASB 69, as currently written, states that it does not address combinations in which a government acquires another organization that continues to exist as a separate entity. This paragraph also states that it does not address the acquisition of equity interests in organizations that remain legally separate from the acquiring government. As paragraph 20 of GASB 14 defines component units as organizations that are legally separate from the primary government, the University recommends that the Board amend GASB 69 to remove the scope exceptions identified in paragraph 7.

- Transactions that do not involve the exchange of consideration with a third party, such as membership substitutions, appear to be excluded from the guidance proposed in paragraph 7 of the Exposure Draft. The University believes the Exposure Draft should also contemplate the acquisition of a 100 percent equity interest in a component unit through a membership substitution that does not involve the exchange of consideration with a third party, and that these transactions should be reflected as Government Mergers in accordance with GASB 69. Therefore, the University recommends that the Board amend paragraph 10 of GASB 69 to coincide with the proposed removal of the paragraph 7 scope exceptions, as noted above.

In closing, we appreciate the opportunity to provide input on the Exposure Draft and look forward to addressing any questions you may have about our comments.

Sincerely,

Cheryl Soper
Controller and Director of Financial Operations

Chad Greenwell
Associate Controller for Financial Reporting