March 4, 2015

Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT  06856-5116

Re: Preliminary View on Leases (Project No. 3-24P)

Dear Sir:

The Michigan Government Finance Officers Association (MGFOA) has reviewed the Preliminary Views of the Governmental Accounting Standards Board on Leases, dated November 11, 2014. We offer the following comments and observations:

Scope (page 5, paragraph 8)

We support the Board’s list of transactions that should be excluded from the guidance for leases. However, we note that often a government transfer of operations or acquisition (as defined by GASB 69) is structured as a lease agreement. The current document does not seem to contain guidance on whether such an arrangement should follow GASB 69, the proposed guidance for leases, or both.

Scope (page 5, paragraph 9)

We suggest that the board incorporate into paragraph 9 the following wording “Leases that contain a bargain purchase option should be reported in the same manner, if it is management’s intent to purchase the underlying asset”. The mere fact that a bargain purchase option exists does not necessarily mean it will be exercised (especially if purchasing the asset would expose the government to increased maintenance/repair costs).

Disclosures for Lessees (page 17, paragraph 22)

We believe that the lease disclosures could be included with the long-term debt disclosure requirements. We do not believe that the lease information is sufficiently important to the readers to segregate it from other forms of long-term indebtedness. Further, we believe the general long-term indebtedness disclosures should be sufficient; some of the items listed in paragraph 22 that go beyond these requirements do not seem to warrant the additional cost for compilation.
Intra-Entity Leases (page 31, paragraph 3)

In general, we support the Board’s view that existing guidance regarding leases within financial reporting entities, found in Statement No. 14, The Financial Reporting Entity, as amended, should remain in effect. We believe that the requirement to present the lease receivables and payables separately from other due to and due from component unit balances and from lease receivables and payables with outside organizations would provide the same value to the users of the financial statements if they were presented in detail in the footnotes and not required to be shown on the face of the financial statements.

Intra-Entity Leases (page 31, paragraph 4)

We noted that in paragraph 4, the Board noted that “with respect to leases with or between blended component units, for which eliminations are required, the Board believes that these eliminations should be made before the financial statements of the blended component units are aggregated with those of the primary government”. We believe that this paragraph needs some additional clarification as to what are the “eliminations”.

These comments represent the consensus opinion of the Accounting Standards Committee and have been approved by our Board of Directors. Thank you for your consideration and the opportunity to express our point of view.

Very truly yours,

Edward J. Sell Jr., President
Michigan Government Finance Officers Association