*THE* ***GASB*** *REPORT*

***No. 322 / January 2012***

*(The GASB Report No. 284)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***March 6–8***

***April 18–20***

The GASB also is scheduled to meet via **teleconference** on **March 27** and **May 7.** The precise time, as well as the agenda, will be announced approximately two weeks before each meeting. Unless otherwise indicated, all meetings are held at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut.

In addition, the GASB will be meeting with the Governmental Accounting Standards Advisory Council on March 8 and 9 in Norwalk.

Finally, the GASB will be holding public hearings on the financial projections Preliminary Views on March 29 in Los Angeles, California (Courtyard by Marriott/LAX Century Boulevard Hotel) and on April 17 in East Elmhurst, New York (LaGuardia Plaza Hotel).

Please check the GASB website at www.gasb.org three working days prior to meetings to verify the final agenda.

If you plan to attend *any* meetings, please notify Ragan Vincent at (203) 956-5372 or via email at rpvincent@gasb.org. In addition, due to the FAF’s security procedures, visitors to *all* meetings are required to go to www.gasb.org to register at least 24 hours before each meeting they are planning to attend.

***FAF Trustees Appoint William W. Fish and James E. Brown to the GASB***

William W. Fish, a senior municipal securities manager and analyst, and James E. Brown, a leader in the governmental auditing industry, were appointed in January to serve on the GASB. The appointments were made by the Financial Accounting Foundation’s Board of Trustees, which oversees the activities of the GASB and the Financial Accounting Standards Board.

Mr. Fish was appointed to a term of four years and five months beginning on February 1, 2012. He will replace GASB member Michael D. Belsky, who resigned in October 2011. He served as chief investment officer of Chartis, U.S., a property and casualty insurance subsidiary of AIG, from 2004 until 2010, where he was responsible for managing $80 billion in assets. Previously, he had positions of increasing responsibility at AIG; ABN AMRO Securities; Donaldson, Lufkin & Jenrette; and Bankers Trust Company.

Mr. Fish co-managed the municipal research group at ABN AMRO and was responsible for building and managing the municipal securities research department at Donaldson, Lufkin & Jenrette. He has served as president of the Society of Municipal Analysts and as chairman of the Municipal Analysts Group of New York. Mr. Fish received an MBA in finance from the University at Albany, NY and is a recipient of the Lifetime Achievement Award from the National Federation of Municipal Analysts.

Mr. Brown was appointed to a five-year term beginning on July 1, 2012. He will succeed outgoing GASB member James M. Williams, whose term expires on June 30, 2012. Although recently retired, he formerly served for more than 25 years as a partner at BKD, LLP, a large regional public accounting firm, which is headquartered in Springfield, Missouri. At BKD, he was responsible for quality control and training for the firm’s government and not-for-profit practice from 1984 until 2011.

Prior to joining BKD, Mr. Brown was a partner at a local public accounting firm in Joplin, Missouri. Previously, he taught accounting and auditing at Missouri Southern State University in Joplin and he now serves as a continuing education instructor for the American Institute of Certified Public Accountants (AICPA). A past member of the AICPA’s Auditing Standards Board and Board of Examiners, Mr. Brown is a certified public accountant and a certified government financial manager.

John J. Brennan, chairman of the FAF Board of Trustees, said the incoming GASB members will bring a wealth of governmental accounting experience and expertise to their new positions. “They will play very important roles as the GASB deals with a wide range of critical issues in the months and years ahead,” he said.

GASB Chairman Robert H. Attmore said, “Bill Fish brings extensive experience as an accomplished securities professional, both as an investment manager and as an analyst specializing in municipal securities. His expertise as a user of government financial statements will be important to the Board. Jim Brown brings in-depth technical expertise from his nearly 40 years of experience serving as an auditor and a part-time educator. We’re very pleased to welcome them both to the Board and I look forward to their informed perspectives on the important issues facing the GASB.”

When Messrs. Fish and Brown respectively assume their terms on the GASB, each will become one of six part-time members serving on the seven-member Board. Mr. Fish’s term extends through June 30, 2016. Mr. Brown’s term extends through June 30, 2017.

***Board Meeting Summary***

The GASB held a public meeting on December 13–15 in Norwalk, Connecticut, to discuss issues associated with its projects on pension accounting and financial reporting, financial guarantees, government combinations, recognition and measurement approaches under its conceptual framework, reporting balances previously reported as assets and liabilities, measurement and application of fair value, and the technical plan for the first third of 2012. (Please see the December 2011 issue of *The GASB Report* for information on the technical plan.)

The GASB also met via teleconference on January 4 to discuss issues associated with its project on measurement and application of fair value.

In addition, the GASB held a public meeting on January 24–26 in Norwalk, Connecticut, to discuss issues associated with its projects on pension accounting and financial reporting, government combinations, financial guarantees, reporting balances previously reported as assets and liabilities, measurement and application of fair value, technical corrections, and the user guide series. Due to publication deadlines, details of the January meeting deliberations are not described in this issue of *The GASB Report* but will be discussed in the next issue.

***Pension Accounting and Financial Reporting***

In its project addressing pension accounting and financial reporting, the Board began redeliberations of issues addressed in the Exposure Draft, *Accounting and Financial Reporting for Pensions* (the Employer Exposure Draft), including consideration of comments and testimony received on the Board’s proposals.

Specifically, the Board considered issues primarily related to the scope of the Employer Exposure Draft, the applicability of its proposals, the interaction of the proposals with other standards, and the classification of pensions for purposes of applying the provisions of the Employer Exposure Draft. Due to the interrelationship of the Employer Exposure Draft and the Exposure Draft, *Financial Reporting for Pension Plans* (the Plan Exposure Draft), the impact of the issues on proposals in the Plan Exposure Draft also was discussed.

With regard to the scope of the respective Exposure Drafts, the Board tentatively affirmed its prior decision to exclude both other postemployment benefits (OPEB) and pensions that are not provided through a qualified trust. Those issues are due to be addressed in a later phase of the postemployment benefit project.

The Board also discussed suggestions or concerns raised by respondents related to the criteria for a qualified trust, the definition of pensions, and the application of the proposals to pensions provided to volunteers. Related to the three criteria that define a qualified trust, the Board tentatively agreed to make modifications to address respondent comments suggesting that the criteria should be clarified to specifically note that the payment of administrative costs and refunds of employee contributions in accordance with the benefit terms would not cause a trust to fail to meet the criteria to be considered a qualified trust. Further, the Board tentatively agreed to include in the criteria an indication that refunds to employers in the case of employee forfeitures of nonvested balances in a defined contribution pension plan would not violate the criterion. Additionally, the Board tentatively agreed that alternative language for the term *qualified trust* should be considered further as the Board assesses the possibility of confusion with similar terminology used by the Internal Revenue Service for another purpose.

With respect to the applicability of Exposure Draft provisions related to benefits provided to “volunteers,” the Board tentatively decided that language should be included in the final Statements to indicate that the standard is intended to apply to such benefits.

With regard to the interaction of the proposals in the Exposure Drafts with other standards, the Board tentatively agreed to clarify the effect on accounting for compensated absences by amending the Codification Instructions to specifically exclude contributions to a cost-sharing multiple-employer defined benefit pension plan that is within the scope of the Exposure Drafts from the measurement of a compensated absences liability. After considering other related respondent suggestions, the Board tentatively agreed not to modify the discussion related to the effect of the proposals on the requirements of Statement No. 47, *Accounting for Termination Benefits.*

In discussing issues related to the classification of pensions as either defined benefit or defined contribution plans, the Board tentatively reaffirmed the definitions in the Exposure Drafts. In addition, the Board tentatively agreed that no modification should be made to the final plan standard to include additional guidance related to the issue of a single trust being used to provide both defined benefit pensions and defined contribution pensions. Such issues will be considered for inclusion in the Implementation Guide that is planned to be developed following issuance of the final Statement(s).

***Financial Guarantees***

In its project on financial guarantees, the Board discussed recognition and measurement issues for a single guarantee extended by a government as a result of a nonexchange transaction and for groups of guarantees extended by a government as a result of nonexchange transactions.

The Board discussed qualitative factors that may indicate that an indemnification payment is more likely than not and agreed that the qualitative factors used may vary depending on whether the guaranteed obligation is secured by an issuing entity’s general credit or by a specific pledged revenue source.

In addition, the Board tentatively agreed that for a single guarantee extended as a result of a nonexchange transaction for which qualitative factors indicate that it is more likely than not that an indemnification payment will be made, the amount of the liability should be measured using a cost accumulation approach. The measured amount would be either (1) the best estimate of the amount expected to be incurred to settle the liability or (2) the minimum amount in a range of estimated values when no amount in the range is better than any other.

Finally, the Board tentatively agreed that for multiple guarantees with similar characteristics extended as a result of nonexchange transactions, a government should use the same recognition and measurement requirements as would be applied to a single guarantee.

***Government Combinations***

In its project addressing government combinations, the Board discussed disposals of operations and recognition and financial reporting for operations that are discontinued. With regard to situations in which only a particular service, operation, or activity might be “spun off” to create a separate entity, sold to another government, or merged with similar activities of another entity, the Board tentatively agreed to propose that “spin offs” should be incorporated into the proposed standard as the transfer or sale of an *operation.*

The Board tentatively agreed to propose a working definition of the term *operation,* which it describes as “an integrated set of activities, with assets or liabilities, that is being conducted and managed for the purpose of providing identifiable services to a specific group of constituents.” In addition, the Board tentatively agreed the transfer or sale of operations should be incorporated into the working definitions of government mergers and government acquisitions.

The Board also tentatively agreed to propose that a service continuation principle be applied to distinguish between disposals of operations and contributions or acquisitions of assets.

Next, the Board discussed issues related to transfers or sales of operations within the same financial reporting entity. The Board tentatively agreed to propose that transfers or sales of operations within the same financial reporting entity be accounted for in a manner that is consistent with the intra-entity transfers of assets guidance in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* Under Statement 48, a transferee/acquiring government would report assets and liabilities received or acquired at the carrying value reported by the transferor/selling government.

In discussing transfers and sales of operations to governments outside of the financial reporting entity, the Board tentatively agreed to propose that transfers of operations to governments outside of the financial reporting entity be accounted for in a manner that is consistent with government mergers. In addition, the Board tentatively agreed that purchases of operations by governments outside of the financial reporting entity should be regarded as government acquisitions, and similar recognition and measurement guidance should be applied. The Board discussed disclosures for disposals of operations and tentatively agreed on a number of elements a selling or transferring government should disclose.

The Board tentatively agreed that the topic of discontinued operations is applicable to the government environment and that guidance should be included in the proposed standard for determining whether operations have been eliminated. In addition, the Board tentatively agreed that governments should recognize discontinued operations during the period in which they occur based on the effective date of the transfer or sale of an operation to another entity or the effective date when operations are abandoned. Also, the Board considered requirements for certain additional costs associated with eliminating operations and tentatively agreed to propose that governments recognize—as an expense—the cost of goods and services received related to the disposal of an operation up to the effective date of discontinuation; it also tentatively agreed that governments should accrue any known expenses of future services related to the discontinuation of operations as of the effective date of discontinuation.

In addition, the Board tentatively agreed to propose that gains or losses on the disposal of discontinued operations be reported as a special item. The Board also tentatively agreed that the results of operations that are eliminated need not be separately displayed on the face of a government’s financial statements. Rather, if significant, they should be disclosed in the notes to the financial statements.

The Board discussed the kinds of information that should be disclosed for all government combinations and tentatively agreed this information should include a general disclosure describing the combination transaction and the method of accounting that was used to recognize the effects of the transactions.

With respect to government acquisitions, the Board tentatively decided to propose that governments disclose the purchase price of the acquired entity, the net assets acquired, and the period reported. The Board tentatively agreed that for other government combinations, such as annexations, governments also should disclose the net assets received.

Finally, the Board discussed the accounting implications for certain transactions such as payments resulting from prior transactions or preexisting relationships between the acquiring government and the acquired organization that might be negotiated and included in the acquisition transaction. The Board tentatively agreed to propose that all factors, including conditions resulting from prior transactions, be considered as includable within the negotiation of an acquisition transaction.

***Recognition and Measurement Approaches—Concepts***

In the project addressing recognition and measurement approaches under the GASB’s conceptual framework, the staff presented the Board with proposed questions to be asked of users during interviews designed to gather feedback from users of governmental fund financial statements in regard to the Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches.* The questions were submitted for feedback from the Board regarding whether they were likely to elicit the information the Board is seeking.

In general agreement with the approach that the project staff plans to take to elicit user response, the Board determined that the related questions appear to be sufficient to supply the Board with the feedback it requires to continue project deliberations. The Board also directed the staff to review the 2005 User Needs Study with the goal of identifying user feedback that relates to this subject.

***Reporting Balances Previously Reported as Assets and Liabilities***

The Board commenced deliberations on the Exposure Draft, *Reporting Items Previously Recognized as Assets and Liabilities,* based on comments received from respondents during the comment period, which concluded in November 2011. The Board addressed comments as categorized into four sections: Issues with Deferred Outflows of Resources and Deferred Inflows of Resources, Comments on the Reporting of Certain Items as Proposed in the Exposure Draft, Use of the Term *Deferred,* and Major Fund Criteria.

The Board tentatively decided to carry forward the provisions in the Exposure Draft with little or no modification, with the exceptions of government-mandated nonexchange transactions and voluntary nonexchange transactions, the effective date, and concerns considered to be outside the scope of the project. Those issues will be discussed in a future meeting.

***Fair Value—Measurement and Application***

The Board continued deliberations on the fair value measurement and application project with specific focus on the concept of entry and exit prices as applied to financial assets and liabilities.

The Board discussed Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) literature, which indicates circumstances in which a transaction price may not equal fair value, and plans to discuss the concepts and applicability to governments of these situations in more detail at future deliberations. The Board tentatively agreed to propose that a fair value measurement for financial assets represent an exit price. The Board considered FASB guidance that allows a practicability exception to the required use of an exit price and tentatively agreed that, at this time, a fair value proposal for governments should not contain a practicability exception.

The Board tentatively agreed to propose that the fair value of a liability be measured from the perspective of market participants and that the definition of fair value refer to a liability’s transfer price. Consistent with the notion of measuring the fair value of a liability from the perspective of market participants, the Board also tentatively agreed that a government’s credit standing should be considered in an estimate of the debt of that government.

In addition, the Board reviewed the findings of two separate constituent outreach surveys developed by the GASB staff related to fair value information. The surveys were administered separately to financial statement users and financial statement preparers, with the objective of developing information to assist the Board in its consideration of fair value measurement and application issues. The Board did not reach any related decisions.

Continuing deliberations on the principles of fair value measurement, the Board tentatively agreed to propose that the following apply to a comprehensive fair value definition for both financial and nonfinancial assets and liabilities:

• Fair value is a market-based measurement.

• A fair value measurement should be based on a government’s principal market or, in the absence of a principal market, on the government’s most advantageous market.

• A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants at the measurement date.

• A fair value measurement represents an exit price.

Specifically related to nonfinancial assets, the Board reviewed the principles of highest and best use and the related valuation premise as defined by the FASB and IASB, and it tentatively agreed to propose that consistent with the guidance issued by those standards-setters, the fair value of a nonfinancial asset represent the asset at its highest and best use as determined by market participants and be measured according to the related valuation premise.

***New Local Government User Guide Now Available***

The newly updated and revised edition of *What You Should Know about Your Local Government’s Finances: A Guide to Financial Statements* is now available. This new guide offers an easy-to-understand primer on the annual financial reports of local governments and includes the major new reporting requirements issued since the publication of the original guide, including those on retiree health insurance, derivative instruments, and fund balance.

This comprehensive guide is designed to help readers develop a more informed understanding of local governments’ annual financial reports. It provides an in depth yet readily comprehendible look at the importance of government financial statements, information provided about the entire government, governmental funds, notes to the financial statements, supporting information, and other information governments may provide with the financial statements.

The new edition of the local government guide is meant to serve as an introduction to the financial statements of local governments and to the information those statements contain. It will supply readers with the tools necessary to open a financial statement and more clearly understand what it says than they might have otherwise been able to.

Once readers of the guide have completed this introduction to local government financial statements, they can delve more deeply and see, through numerous examples, how the information provided in financial statements can be used to aid them in making specific decisions or assessing the government from an accountability standpoint.

All of the GASB’s *What You Should Know* guides include features designed to assist readers at all points on the spectrum—from those who are new to governmental financial statements to the experienced reader. Specifically, the guides include the following:

• Annotated examples of a host of financial statements, notes, and schedules

• A storyline designed to help the reader understand the concepts

• An introduction to basic financial ratios used to analyze government finances

• Helpful boxes and sidebars further exploring issues raised in the text

• An overview of governmental accounting and financial reporting

• An extensive glossary of terms.

The new local government user guide may be ordered through the Store section of the GASB website, www.gasb.org. Information about the other guides in the series will be posted as they become available in the coming months:

• What *You Should Know about Your School District’s Finances*—revised and updated

• *An Analyst’s Guide to Government Financial Statements*—revised, updated, and significantly expanded

• *What You Should Know about the Finances of Your Business-Type Activities*—a completely new guide for 2012.

***Who’s Who at the GASB***

*In January, two postgraduate technical assistants joined the GASB.*

***Benjamin Berryman*** joined the GASB staff in January 2012. He came to the GASB from Texas A&M University, College Station, TX, where he received a master’s degree in finance and a bachelor’s degree in accounting. Ben’s significant project assignments include financial projections as they relate to economic condition reporting, electronic financial reporting, fiduciary responsibilities, and the Financial Accounting Foundation’s post-implementation review project.

***Meagan Wayland*** joined the GASB staff in January 2012. She came to the GASB from Texas Christian University, Fort Worth, TX, where she received a master’s degree in accounting and a bachelor’s degree in business administration. Meagan’s significant project assignments include fair value measurements, financial guarantees, and leases.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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