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

***No. 334-B / January 2013***

*(The GASB Report No. 296)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***February 19–21***

***April 2–4***

The GASB also is scheduled to meet via **teleconference** on **March 11** and **April 22.** 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.

Also, the GASB will be meeting with the Governmental Accounting Standards Advisory Council on February 21 and 22 in Norwalk, Connecticut.

Finally, the FAF Board of Trustees will meet on February 26 in Norwalk, Connecticut.

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.

***GASB Issues Statement No. 69 on Government Combinations and Disposals of Government Operations***

The GASB recently issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* That Statement addresses accounting and financial reporting topics related to government combinations, commonly referred to as mergers and acquisitions, and disposals of government operations that have been transferred or sold.

Governments currently account for mergers, acquisitions, and other similar combinations by analogizing to accounting and financial reporting intended for the business environment, which addresses conditions and circumstances that are not normally encountered in government combinations. Statement 69 provides accounting and financial reporting guidance specifically intended for the government environment to address its unique conditions and circumstances.

Statement 69 provides guidance for identifying types of government combinations to assist governments in applying the accounting and financial reporting requirements in a consistent manner. Under the new pronouncement, the term *government combinations* refers to three types of government combinations: government mergers, government acquisitions, and transfers of operations.

***Government Mergers***

Statement 69 defines a government merger as a government combination of legally separate entities in which insignificant or no financial consideration is exchanged and which includes one of the following:

* Two or more governments, or a government(s) and a nongovernmental entity, cease to exist as legally separate entities and are combined to form one or more new governments
* One or more legally separate governments or nongovernmental entities cease to exist and their operations are absorbed into, and provided by, one or more continuing governments.

Under a government merger, assets, deferred outflows of resources, liabilities, and deferred inflows of resources are combined at their carrying value. New and continuing governments will now measure these elements as of the merger date at the carrying values as reported in the separate financial statements of the merging entities. If a new entity is established, the merger date is the date on which the combination becomes effective. However, if there is a continuing entity, the merger date is the beginning of the reporting period in which the combination occurs, regardless of the actual date of the merger.

The beginning net position of the merged government results from combining the carrying values of assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the separate entities. However, governments may elect to adjust some carrying values to bring the accounting policies of the merging entities into alignment. In situations in which the financial statements of one or more of the merging entities are not presented in conformity with generally accepted accounting principles for state and local governments, adjustments are required.

***Government Acquisitions***

Statement 69 defines a *government acquisition* as a government combination in which a government acquires another entity, or the operations of another entity, in exchange for the payment of significant consideration. The acquired entity or operation becomes part of the acquiring government’s legally separate entity.

The date on which the acquiring government obtains control of the assets and becomes obligated for the liabilities of an acquired entity or its operations in exchange for significant consideration is the acquisition date. The acquiring government will measure the acquired assets, deferred outflows of resources, liabilities, and deferred inflows of resources—with certain exceptions—at acquisition value as of the acquisition date. As defined in Statement 69, *acquisition value* is a market-based entry price.

Consideration provided by the acquiring government is measured at the acquisition date as the sum of the acquisition values of the assets remitted or liabilities incurred to the former owners of an acquired entity. Negative net position of an entity recognized in a government merger or a transfer of operations that does not include the exchange of significant consideration (a net liability assumed by the combined government) does not constitute consideration given for purposes of the Statement.

***Transfers of Operations***

Statement 69 also provides accounting and financial reporting guidance for combinations that occur in the government environment that do not involve combinations of legally separate entities and in which no significant consideration is provided. These arrangements are combinations that include transfers of operations to continuing governments or that form the basis of new governments.

The Statement defines a *transfer of operations* as a government combination involving the operations of a government or nongovernmental entity, rather than a combination of legally separate entities, and in which no significant consideration is exchanged. An *operation* is defined as an integrated set of activities with associated assets and liabilities that is conducted and managed for the purpose of providing identifiable services.

Because transfers of operations are entered into by governments for similar reasons as government mergers, similar measurements, that is, carrying values, are applied for these arrangements.

***Disposals of Governmental Operations***

Statement 69 provides guidance for disposals of government operations that have been transferred or sold.

Upon the disposal of operations, governments recognize a gain or loss, which is reported as a special item in the period in which the disposal occurs. In the period in which the operations are transferred or sold, a government provides a brief description of the facts and circumstances leading to the disposal of those operations. The government also will identify and disclose information regarding the disposed government operation’s total expenses, revenues, and nonoperating revenues and expenses of the period, if this information is not presented separately in the government’s financial statements.

***Additional Disclosures***

For each government combination, governments will include in the notes to financial statements in the period in which a combination occurs a brief description of the government combination, the date of the combination, and the primary reasons for the combination.

***Government Mergers and Transfers of Operations***

New governments or continuing governments will disclose the amounts recognized as of the merger date or the effective transfer date for total assets, total deferred outflows of resources, total liabilities, total deferred inflows of resources, and total net position by component. These governments also will disclose a brief description of the nature and amount of significant adjustments made to bring into alignment the individual accounting policies or to adjust for impairment of capital assets resulting from the merger or transfer.

***Government Acquisitions***

In the period in which an acquisition occurs, an acquiring government will disclose a brief description of the consideration provided, the total amount of net position acquired as of the date of acquisition, and a brief description of contingent consideration arrangements (that is, consideration that will be provided if certain events take place in the future) including the basis for determining the amount of payments that are contingent.

***Disposals***

A government will briefly describe the facts and circumstances leading to the disposals of its operations. The government also will identify and disclose the disposed operation’s total expenses, revenues, and nonoperating revenues and expenses of the period, if this information is not presented elsewhere in the government’s financial statements.

***Effective Date***

The requirements of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Early application is encouraged.

***Board Meeting Summary***

The GASB held a public meeting on January 8 and 9 to discuss issues associated with a number of projects including those on government combinations, financial guarantees, measurement and application of fair value, measurement approaches under the conceptual framework, the hierarchy of generally accepted accounting principles, and other postemployment benefits (OPEB).

***Government Combinations***

After reviewing and making minor clarifying changes to a ballot draft of Statement No. 69, *Government Combinations and Disposals of Government Operations,* the Board voted unanimously to issue the final Statement. (Please see the related article on page X.)

***Financial Guarantees***

The Board continued deliberating issues raised by respondents related to recognition and measurement in the Exposure Draft, *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions.*

After discussion, the Board tentatively affirmed that the final Statement should retain the requirement to consider qualitative factors in relation to the issuer of a guaranteed obligation in assessing the likelihood that a payment will be made in relation to a nonexchange financial guarantee.

The Board next deliberated issues related to the proposed guidance on the consideration of historical data in relation to groups of similar nonexchange financial guarantees and tentatively agreed to clarify that historical data is an additional factor to consider in assessing the likelihood that a government will make a payment in relation to the group of guarantees.

After discussing concerns raised by respondents related to the proposed requirement that guarantors recognize a guarantee liability when qualitative factors indicate that it is more likely than not that the guarantor will be required to make a payment on a nonexchange financial guarantee, the Board tentatively affirmed that the final Statement should retain this proposal.

Following deliberations on the basic recognition issue, the Board tentatively affirmed the requirement to measure a nonexchange financial guarantee liability as the best estimate or the minimum amount within a range if no amount within that range is a better estimate than any other amount.

The Board then discussed issues related to reporting nonexchange financial guarantee expenses/expenditures and tentatively agreed to provide guidance indicating that guarantee payments should be reported in the same manner as financial assistance payments to other entities.

Finally, the Board discussed issues related to the proposed requirements for recognition and measurement of nonexchange financial guarantees received by a government that has issued a guaranteed obligation. The Board tentatively agreed that the proposed guidance specifying that a government that has issued an obligation that has received a nonexchange financial guarantee should not recognize revenue or a reduction in its liabilities until legally released as an obligor from the guaranteed obligation should be carried forward to the final Statement.

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

In its project addressing fair value measurement and application issues, the Board considered application issues related to the topic of fair value and its incorporation into the existing body of GASB literature. The Board considered how fair value meets the qualitative characteristics of information in financial reporting as described in GASB Concepts Statement No. 1, *Objectives of Financial Reporting* (understandability, reliability, relevance, timeliness, consistency, and comparability), and tentatively agreed that fair value measures for investments being developed for exposure are consistent with the qualitative characteristics of information in financial reporting.

The Board next considered the topic of lending assets. After discussing whether lending assets that meet the definition of an investment asset should be classified as such, the Board tentatively agreed to propose that lending assets held primarily for the purpose of income or profit and that have present service capacity based solely on their ability to generate cash, to be sold to generate cash, or to procure services for the citizenry (the proposed definition of an investment) should be classified as investments. Addressing mortgage loan assets, the Board tentatively agreed to propose that, consistent with the other tentative decisions, mortgage loans meeting the proposed definition of an investment asset should be classified as such. In addition, the Board tentatively decided to propose that, consistent with previous tentative decisions in this project, lending assets that are classified as investments should be measured at fair value.

After discussing the existing specific guidance for mortgage loans held by public entity risk pools and other insurance organizations, the Board tentatively decided to propose elimination of this specialized guidance that is currently provided in authoritative standards.

The final issue related to this project that was discussed by the Board was donated capital assets—and whether these assets should continue to be measured at fair value or at acquisition value, which is defined as a market-based entry value. Consonant with its view that an entry value is more appropriate than an exit value for capital assets received through donation, the Board tentatively decided to propose that donated capital assets be measured at acquisition value.

***Conceptual Framework—Measurement Approaches***

In its project addressing measurement approaches under the conceptual framework, the Board discussed which specific measurement attributes should be presented in the forthcoming Exposure Draft on measurement concepts. The Board tentatively decided that the term *measurement attribute* would be used within the Exposure Draft and that a footnote indicating that certain other standards boards have used the term *measurement basis* to refer to the same aspect of measurement would be included.

Subsequently, the Board tentatively decided to include the following five measurement attributes in the proposed Concepts Statement: historical cost, fair value, acquisition value, settlement amount, and replacement cost. These measurement attributes were tentatively defined as follows:

1. Historical Cost (Proceeds)—the amount paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction
2. Fair Value—the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
3. Acquisition Value—the price that would be paid to acquire the service potential the entity will obtain from an asset in an orderly market transaction at the acquisition date
4. Settlement Amount—the amount at which an asset could be realized or a liability could be liquidated with the counterparty, rather than through an active market
5. Replacement Cost—the price that would be paid to acquire the service potential the entity will obtain from an asset in an orderly market transaction at the measurement date.

The Board noted that some measurement attributes may be inherently associated with one measurement approach and other measurement attributes may be appropriate for use under both measurement approaches. For example, historical cost could be used only as an initial amount, and settlement amount could be used under either the initial amount or remeasurement amount measurement approaches.

The Board requested the project staff to continue evaluating these measurement attributes and to develop a discussion of benefits and drawbacks to the use of these measurement attributes for its consideration.

***GAAP Hierarchy***

Addressing its project on the hierarchy of generally accepted accounting principles, the Board examined alternatives for the presentation of nonauthoritative literature and discussed whether specific nonauthoritative sources should be more influential or be given preference over others. The Board tentatively agreed that compliance with GASB Concepts Statements prior to all other nonauthoritative literature should not be mandatory as this requirement would create a definitive hierarchy within the nonauthoritative literature.

The Board next discussed and tentatively agreed to eliminate the example that states that GASB Concepts Statements are normally more influential than other nonauthoritative sources as it did not add clarity to the evaluation of appropriateness of nonauthoritative literature. The Board further discussed whether consistency with the GASB Concepts Statements should be considered along with relevance to particular circumstances, specificity of the guidance, and the general recognition of the issuer or author as an authority when evaluating the appropriateness of nonauthoritative literature. Ultimately, the Board tentatively decided to propose a modified paragraph that would address consideration of consistency with the GASB Concepts Statements when evaluating the appropriateness of a nonauthoritative source.

Addressing the wording of GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* the Board tentatively agreed to propose an amendment to clarify that nonauthoritative guidance should not conflict with or contradict authoritative GAAP for governments.

The Board concluded its discussion of the project by considering the appropriate method of incorporating existing GASB Technical Bulletins into authoritative literature. The Board tentatively agreed to propose incorporating existing GASB Technical Bulletins by reference, in a manner similar to that used to incorporate National Council on Governmental Accounting Statements and Interpretations into authoritative literature.

***Other Postemployment Benefits***

In its project addressing OPEB, the Board discussed issues related to the discount rate to be used to calculate the present value of projected future OPEB in the measurement of an OPEB liability. The Board tentatively decided to propose that the discount rate used in the measurement of an OPEB liability be the single rate reflecting (1) the long-term rate of return on plan investments that are expected to be used to finance the payment of benefits, to the extent that (a) the plan’s fiduciary net position is projected to be sufficient to make projected benefit payments and (b) plan assets are expected to be invested using a strategy to achieve that return and (2) a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), to the extent the conditions in (1) are not met.

In addition, the Board discussed the effect of the use of an irrevocable trust on the measurement of an employer’s OPEB liability. Specifically, the Board considered the ability of a trust to return assets to the employer in circumstances in which assets accumulated in the trust are in excess of the projected benefits to be paid. The Board tentatively decided to propose that trusts that allow excess assets to be returned to the employer when the total OPEB liability has been legally defeased should be considered a trust in the measurement of an OPEB liability. Trusts that allow assets accumulated in excess of the present value of projected benefits to be paid to be returned to the employer, however, should not be considered a trust in the measurement of an OPEB liability.

***GASB Requests Input on Questions for Comprehensive Implementation Guide***

The GASB staff is preparing the annual update of the *Comprehensive Implementation Guide* and is seeking input for new questions to include in the next edition. The Guide was developed to assist in the implementation and ongoing application of GASB pronouncements.

The 2012–2013 edition represents a consolidation of all previously issued guides—from the first guide on Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* through the guide on Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* Annual updates to the *Comprehensive Implementation Guide* include changes to the original guides that result from new standards that are issued and answer additional questions that arise on standards that have not been the subject of an individual guide that the GASB believes have broad applicability and that clarify, explain, or elaborate on an underlying pronouncement (for example, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*).

If you or your client has encountered an issue that you believe should be addressed in the 2013–2014 edition of the Guide, please send a description of the issue to Michelle Czerkawski at mlczerkawski@gasb.org by February 28. Please indicate in your email subject line that the question is a suggestion for the *Comprehensive Implementation Guide.*

***Who’s Who at the GASB***

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

***Erin Bojarzin*** came to the GASB from Michigan State University, East Lansing, MI, where she received a master’s degree in accounting, information systems, and financial reporting and assurance services, and a bachelor’s degree in accounting.  Erin’s significant project assignments include accounting and financial reporting for other postemployment benefits.

***Kelly Amos*** came to the GASB from the University of Buffalo, Buffalo, NY, where she received a master’s degree and a bachelor’s degree in accounting. Kelly’s significant project assignments include the hierarchy of generally accepted accounting principles and the *Comprehensive Implementation Guide.*

***Janalyn Guo*** came to the GASB from The University of Texas at Austin, where she received a master’s degree in professional accounting.  Janalyn received a master’s degree in fine art in literary arts from Brown University, Providence, RI, and she received a bachelor’s degree in business administration and a bachelor’s degree in English literature from Washington University in St. Louis, MO.  Janalyn’s significant project assignments include fair value measurement and application and tax abatement disclosures.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

Managing Editor: Christine L. Klimek

Email: clklimek@f-a-f.org

Editor: Kip Betz

Email: jcbetz@gasb.org

Write: 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116

Telephone: (203) 847-0700

GASB website address: www.gasb.org

***Subscription questions and address changes:***

Barbara Diliberto

Email: bldiliberto@f-a-f.org

Fax: (203) 847-6045

***To order GASB publications:***

(800) 748-0659 or www.gasb.org