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

***No. 339 / June 2013***

*(The GASB Report No. 301)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***August 6–8***

***September 17–19***

The GASB also is scheduled to meet via teleconference on August 26. The precise time, as well as the agenda, will be announced approximately two weeks before each meeting. All meetings are held at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut.

In addition, the FAF Board of Trustees will meet on August 20 in New York City.

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.

***Departing Chairman’s Notes***

***GASB Chairman Robert H. Attmore Reflects on His Time at the GASB***

Serving as the chairman of the Governmental Accounting Standards Board (GASB) for the past nine years has been both a challenge and an honor. Working with the dedicated professionals who make up the GASB membership and staff on efforts designed to improve accounting and financial reporting in the government environment has been very gratifying.

Having issued 25 new GASB Statements, 3 Technical Bulletins, and 3 Concepts Statements during my tenure as GASB chairman, I believe that we have made significant progress in the enhancement of governmental accounting and financial reporting. One of the keys to that progress has been the high caliber of input we have received from constituents and constituent groups. I am grateful for that participation, and I think our due process and the resulting standards are better for having received the benefit of the thoughts and suggestions of our constituents.

I want to assure constituents that your views are valued by all of the Board members, so I encourage your continued participation in the GASB due process. If you have not commented on a GASB proposal in the past, I encourage your participation all the more. Feedback from our constituents has made a real difference in shaping GASB standards in the past, and it will continue to do so in the future.

From my perspective, it seems clear that accounting and financial reporting standards and the information they require to be reported continue to be a critical element in the effective functioning of our representative democracy. The general purpose external financial reports that state and local governments issue in accordance with GASB standards and guidelines play a significant role in fulfilling government officials’ duty to be publicly accountable. These financial reports provide information for making key investment, economic, social, and political decisions.

I am proud of the advancements the GASB has made in some challenging areas of financial reporting during my time on the Board, including guidance for postemployment benefits, derivative instruments, and service concession arrangements. We also provided suggested guidelines for service efforts and accomplishments reporting to assist governments in reporting service performance information as an important complement to traditional financial reports. Nonetheless, much work remains to further improve government financial reporting.

***Looking Ahead***

I would like to briefly mention two projects on the GASB’s current technical agenda that I expect will play a significant role in further improving financial reporting: other postemployment benefits (OPEB) and fair value measurement and application.

Just as GASB’s 2012 pension standards provided needed advancements that will soon allow users of government financial reports to assess pension information that is more transparent, consistent, and comparable than has ever been reported before, I expect the OPEB project to ultimately result in revised standards that will bring about similar benefits in that area. As evidenced by the nearly constant coverage in the media of pension and OPEB issues, users are seeking more robust information about these obligations. Once new pension and OPEB standards are both in place, I believe they will go a long way toward providing users—including elected officials—with the kind of information that meets their needs.

The Board is still at a fairly early stage in its work to further develop standards related to fair value in the government environment, including the methods used to measure and apply it, and potential related disclosures. This spring, the Board decided to take the extra step of issuing a Preliminary Views to allow for additional consideration of the proposals. Consequently, it is particularly important that the GASB has the benefit of constituents’ points of view at this formative stage in the process. I encourage you to share your thoughts on fair value by commenting on the Preliminary Views, and on the companion Exposure Draft on concepts related to *Measurement of Elements of Financial Statements,* both of which the Board has just recently approved for issuance.

***Closing Thoughts***

As a standards setter, I found it important to always remember the basics of financial reporting by focusing on a few key questions, including (1) Why are these financial statements being prepared? (2) Who are they prepared for? and (3) What are the objectives of financial reporting? Keeping the answers to those basic questions in mind helped me to maintain an appropriate perspective when developing standards, and I think it would be helpful for preparers, auditors, and users of governmental financial statements, as well.

Due to the ongoing emergence of new transactions, financial innovations, and changes in the governmental environment, improving financial reporting will always remain something that we strive for rather than finally achieve. I am confident that the dedicated team of professionals at the GASB, led by the new chairman, David Vaudt, and working together with its constituent groups, is well equipped to address the challenges that lie ahead. Having been a part of the GASB team for the past nine years has been a highly rewarding experience and one that I will always treasure. I say farewell for now and extend my thanks and best wishes to all!

***GASB Issues Exposure Draft on Measurement of Financial Statement Elements, Preliminary Views on Fair Value Measurement and Application***

The GASB recently approved for issuance an Exposure Draft, *Measurement of Elements of Financial Statements,* and a Preliminary Views, Fair Value Measurement and Application. The comment deadline is September 30 for both documents.

The Exposure Draft proposes new accounting concepts for the measurement of assets and liabilities. It is intended to lead to the issuance of a final Statement of Governmental Accounting Concepts. The Preliminary Views proposes new accounting standards regarding which assets and liabilities should be measured at their “fair value,” how that value should be determined, and what note disclosures should be included with fair value measures. A Preliminary Views document is designed as a tool to elicit comments from GASB constituents at a relatively early project stage.

***Measurement Concepts***

GASB Concepts Statements are intended to provide a conceptual framework of interrelated objective and fundamental concepts that can be used as a basis for establishing consistent financial reporting standards. They serve to identify the objectives and fundamental principles of financial reporting that can be applied to solve numerous financial accounting and reporting issues.

Measurement concepts primarily will guide the Board’s decisions regarding how to determine the dollar amount that will be reported for the assets, liabilities, and other financial statement elements. Establishing these measurement concepts, then, establishes a foundation upon which to portray both a government’s financial health as of a certain date and its financial activities during a certain period. Having measurement concepts in place will provide a foundation so that standards can be established that will require essentially the same treatment for similar transactions, which will in turn promote comparability of reported information across governments.

The proposed Concepts Statement addresses both measurement approaches and measurement attributes.

*Measurement Approaches*

A measurement approach determines whether an asset or liability presented in a financial statement should be reported at an amount that reflects a value at the date that the asset was acquired or the liability incurred, or remeasured and reported at an amount that reflects a value at the date of the financial statements.

The proposed Concepts Statement sets out two measurement approaches:

* **Initial-Transaction-Date-Based Measurement (Initial Amount)—**The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount
* **Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)—**The amount assigned when an asset or liability is remeasured as of the financial statement date.

The Board believes that proposing two measurement approaches will maximize the ability of accounting standards to meet the objectives of financial reporting and achieve balance among the qualitative characteristics exhibited by the information governments are required to report, which are understandability, reliability, relevance, timeliness, consistency, and comparability.

*Measurement Attributes*

Another dimension of measurement is the particular measurement attribute used. A measurement attribute is the feature or characteristic of the asset or liability that is being measured. The proposed Concepts Statement sets out four measurement attributes:

* **Historical cost** is the price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction.
* **Fair value** is 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.
* **Replacement cost** is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date.
* **Settlement amount** is the amount at which an asset could be realized or a liability could be liquidated with the counterparty, other than in an active market.

The proposed concepts, if ultimately issued as a Concepts Statement, would improve financial reporting by augmenting the framework through which the Board can enhance consistency in future standards setting. These proposed concepts address measurement, which is a necessary component of a complete framework for reporting in traditional financial statements. These proposed concepts, when finalized, also may benefit preparers and auditors when evaluating transactions for which there are no existing standards or in implementing existing standards.

***Fair Value Measurement and Application***

The Preliminary Views document presents the preliminary views of the GASB on the issues associated with measurement and application of fair value and related disclosures.

It is the Board’s preliminary view that the fair value of an asset or liability should be defined as 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.

The objective of a fair value measurement would be to estimate the exit price of assets and liabilities using observable or unobservable inputs.

The Preliminary Views contains the Board’s decisions regarding the definition of fair value, methods used to measure fair value, and the application of fair value measurements to elements of financial statements, including disclosures related to fair value.

*Fair Value Measurements*

In a fair value measurement, the sale of an asset or transfer of a liability would be expected to take place in the principal market or, in the absence of a principal market, in the most advantageous market to which a government has access.

Certain market conditions may make quoted prices less reliable for fair value measurement. If fair value measurement is required and there has been a significant decrease in the volume or level of activity for an asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices would be needed. Similarly, if evidence indicates that a transaction is not orderly, a government would place little, if any, weight (compared with other indications of fair value) on that transaction price.

If fair value measurements were applied to nonfinancial assets, those assets would be valued based on their highest and best use, which would take into account the best use of the asset that is physically possible, legally permissible, and financially feasible.

Fair value also may apply to certain liabilities. An example is an interest rate swap that is in a liability position to a government. The fair value of such a liability would be the price to transfer it to a market participant at the measurement date. The liability would be assumed to remain outstanding, requiring the assuming market participant to fulfill the obligation. Additionally, the fair value measurement would take into account the effect of nonperformance risk, which includes a government’s own credit risk and any other factors that might influence the likelihood that the obligation would or would not be fulfilled.

It is the Board’s preliminary view that valuation approaches and techniques used to estimate the fair value of an asset or liability should be appropriate in the circumstances. Valuation approaches would include market, cost, and income approaches. The market approach would use prices and other relevant information generated by market transactions involving identical or similar assets, liabilities, or a group of assets and liabilities. The cost approach would reflect the amount that would be required currently to replace the service capacity of an asset. The income approach would convert future amounts to a single discounted amount.

A government would be permitted, as a practical expedient, to estimate the fair value of an investment that does not have a readily determinable fair value using the net asset value per share (or its equivalent) of the investment. This expedient would be available if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles for investment companies as of the government’s measurement date.

To increase consistency and comparability in fair value measurements and related disclosures, it is the Board’s preliminary view that a fair value hierarchy should be established that would categorize the inputs to valuation techniques used to measure fair value into three levels (Level 1, 2, or 3). The highest priority would be given to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Level 2 inputs would be other than quoted prices that are observable for the asset or liability, either directly or indirectly. Quoted prices obtained from third parties, such as pricing services or brokers, would be allowed if a government has determined that the quoted prices provided by those parties are developed in accordance with the preliminary views described in this document.

*Application of Fair Value to Assets and Liabilities*

It is the Board’s preliminary view that investments generally should be measured at fair value. That view suggests that the definition of an investment is a significant consideration in the application guidance. The Board’s preliminary view is that an investment should be defined as a security or other asset that a government holds primarily for the purpose of income or profit and the present service capacity of which is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry.

Certain investments would be excluded from measurement at fair value and would continue to be measured according to existing GASB standards. This would include investments in 2a7-like external investment pools, investments in money market instruments with remaining maturity at time of purchase of one year or less, investments in certain life insurance policies, investments in common stock that are eligible for the equity method, and investments in nonparticipating interest-earning investment contracts.

Finally, it is the Board’s preliminary view that the measurement requirements for donated capital assets should be revised. The Board proposed that donated capital assets currently measured at fair value be measured at acquisition value. Acquisition value represents the price that would be paid for acquiring similar assets having similar service capacity. Likewise, acquisition value would replace fair value measurements for donated works of art, historical treasures, and similar assets; capital assets received in a service concession arrangement; and nonmonetary assets acquired in an exchange when the value of the asset received is used to measure the cost of the asset acquired.

*Disclosures*

The Preliminary Views addresses fair value disclosures in the notes to the financial statements, including the required level of detail. The Board believes the following disclosures would be essential to understanding the financial position of a government:

* For recurring and nonrecurring fair value measurements:––
* The fair value measurement at the end of the reporting period
* The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)
* A description of the valuation techniques and the inputs used in the fair value measurement
* For recurring fair value measurements within Level 3 only, a narrative description of the sensitivity of fair value measurements to changes in unobservable inputs
* For nonrecurring fair value measurements, the reasons for the measurement
* For investments in entities that calculate a net asset value per share or its equivalent, information that helps users understand the nature and risks of the investments and whether the investments are likely to be sold at amounts different from net asset value per share.

The application of the Board’s proposed requirements in the Preliminary Views, if ultimately issued as a Statement, would enhance financial statement users’ ability to assess the government’s accountability and provide more decision-useful information. Additional disclosures would provide financial statement users with relevant information about the assumptions upon which fair value estimates are based. Consistency of reporting would be enhanced by extension of fair value measurements to most investments regardless of the type of government holding those investments. Financial statement preparers, auditors, and those in the finance community would have more complete guidance as to how estimates of fair value should be developed and the relative significance of disparate fair value information.

***How to Obtain Copies of the Documents***

Copies of the Exposure Draft and Preliminary Views may be downloaded free of charge from www.gasb.org. The comment deadline for both documents is September 30. In addition, the GASB has scheduled a public hearing on the Exposure Draft and Preliminary Views for November 1, 2013, at the Sheraton LaGuardia East Hotel, 135-20 39th Avenue, Flushing, NY. The deadline for providing written notice of intent to participate in the public hearing is September 30.

Additional details on how to provide comments to the GASB and about participating in the public hearing are available in the front of the Exposure Draft and the Preliminary Views.

***Board Meeting Summary***

The GASB held a public meeting May 14–16 to discuss issues associated with its projects on Fair Value Measurement and Application, the Pension Plan Implementation Guide, Employer Transition Provisions for Pensions, Recognition and Measurement under the Conceptual Framework, the Hierarchy of Generally Accepted Accounting Principles (GAAP Hierarchy), and Other Postemployment Benefits (OPEB).

The Board also met via teleconference on June 3 to discuss issues associated with its projects on Measurement under the Conceptual Framework, Fair Value Measurement and Application, the related Plain-Language Supplement, *Measurement Concepts for Assets and Liabilities and Fair Value Measurement and Application,* and Employer Transition Provisions for Pensions.

Finally, the Board held a public meeting June 25–27 to discuss issues associated with its projects on Employer Transition Provisions for Pensions, the *Comprehensive Implementation Guide,* Recognition under the Conceptual Framework, Leases, the GAAP Hierarchy, and OPEB. The Board concluded the meeting with a liaison meeting with members of the American Institute of Certified Public Accountants’ State and Local Government Expert Panel to discuss issues of mutual interest. Due to publication deadlines, details of the June public meeting are not discussed in this issue of The GASB Report but will be presented in the July issue.

***Fair Value Measurement and Application***

In May, the Board reviewed a preballot draft of the Preliminary Views, *Fair Value Measurement and Application.* The Board tentatively decided that the proposed change in the application of amortized cost should be highlighted in the question for respondents addressing measurement of investments. The Board also tentatively decided to propose that disclosures be required for all recurring and nonrecurring fair value measurements.

At the June teleconference, the Board reviewed a ballot draft of the Preliminary Views. After making minor clarifying changes, the Board voted unanimously to issue the document.

***Conceptual Framework—Measurement Approaches***

The Board reviewed the preballot draft of an Exposure Draft on concepts related to *Measurement of Elements of Financial Statements,* at the May meeting. At the June teleconference meeting, the Board reviewed the ballot draft of the Exposure Draft. After tentatively agreeing upon various clarifications, the Board voted 6-1 to issue the document.

***Employer Transition Provisions for Pensions***

The Board discussed and tentatively agreed to modify transition guidance in Statement No. 68, *Accounting and Financial Reporting for Pensions,* to require that, at transition, an employer recognize a deferred outflow of resources for contributions made to a pension plan subsequent to the measurement date of the net pension liability and before the end of the prior reporting period, regardless of whether the amount of other deferred outflows of resources and deferred inflows of resources related to pensions can be determined.

At the June teleconference, the Board reviewed a preballot draft of the Exposure Draft, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* and provided clarifying changes. The Board then directed the project staff to prepare a ballot draft for consideration at the June meeting.

***GAAP Hierarchy***

The Board provided comments and recommendations regarding the staff analysis of Chapters 1 and 6 of the *Comprehensive Implementation Guide* on an individual question-and-answer basis. Chapter 1 addresses disclosures related to deposits with financial institutions, investments (including repurchase agreements), and reverse repurchase agreements. Chapter 6 addresses accounting and financial reporting for certain investments and for external investment pools.

***Other Postemployment Benefits***

The Board discussed issues related to employer accounting and financial reporting for OPEB that contain an implicit rate subsidy. An implicit rate subsidy is the difference between a blended premium rate charged to retirees participating in a pool with active employees for a particular benefit and the rate that would be applicable to those retirees if that benefit was acquired for them as a separate group. The Board tentatively decided to propose that an implicit rate subsidy be included in the projection of OPEB for the measurement of a governmental employer’s OPEB liability.

***Pension Plan Implementation Guide***

The Board reviewed and provided comments on the ballot draft of the *Guide to Implementation of GASB Statement 67 on Financial Reporting for Pension Plans.* The Board provided suggestions to clarify the content of certain questions and answers in the staff’s proposal. After discussing these suggested clarifications, the Board unanimously cleared the guide for issuance.

***Plain-Language Supplement***

The Board reviewed a Plain-Language Supplement, *Measurement Concepts for Assets and Liabilities and Fair Value Measurement and Application.* The document summarizes the proposals in the Exposure Draft, *Measurement of Elements of Financial Statements,* and the Preliminary Views, *Fair Value Measurement and Application,* and poses questions for financial statement users.

***Implementation Guide on Pension Plan Reporting***

The *Guide to Implementation of GASB Statement 67 on Financial Reporting for Pension Plans* is now available. The guide was prepared to assist preparers and auditors of governmental financial statements and those who advise them as they implement the GASB’s recently issued Statement on pension plan reporting.

***Highlights of the Guide***

The guide provides the answers to nearly 100 questions about important topics, including:

* Scope and applicability of the Statement
* Classifying pensions as defined benefit or defined contribution
* Determining the number of plans that should be reported
* Recognition of certain transactions and other events in defined benefit pension plan financial statements
* Determination of the newly required measure of a money-weighted rate of return on pension plan investments
* New requirements for schedules of required supplementary information
* Measurement of the net pension liability of employers and nonemployer contributing entities, including discussion of issues related to projecting benefit payments, calculating a discount rate, and attributing costs to periods of employee service
* Classification of changes in the net pension liability for purposes of presenting the schedule of changes in the net pension liability that is required by Statement 67 for single-employer and cost-sharing multiple-employer plans
* Issues related to effective date and transition.

In addition, the guide includes enhancements to illustrations that were provided in Statement 67 and additional illustrations.

***Effective Starting this Year***

Implementation of Statement 67 starts with fiscal years beginning after June 15, 2013.

***How to Order Copies***

Copies of the *Guide to Implementation of GASB Statement 67 on Financial Reporting for Pension Plans* may be ordered through the GASB Order Department by calling (800) 748-0659 or through the Store section of the GASB website, www.gasb.org.

***Who’s Who at the GASB***

*In June, the GASB marked the departure of three postgraduate technical assistants who completed their terms and assumed new positions.*

***Joe Ammon*** will join Deloitte as a senior consultant in the firm’s Mergers and Acquisitions Transaction Services group in New York City. He came to the GASB from Case Western Reserve University, Cleveland, OH, where he received a bachelor’s degree and a master’s degree in accounting. Joe worked on a number of technical projects during his tenure, including Government Combinations and Disposals of Government Operations, Nonexchange Financial Guarantees, and Leases, and the Financial Accounting Foundation’s post-implementation review process.

***Theodore Minch*** will join KPMG as a senior associate in the firm’s Transactions and Restructuring group, working in the infrastructure practice in Washington, DC. He came to the GASB from the University of Southern California, Los Angeles, CA, where he received a master’s degree in public policy. Teddy received a bachelor’s degree in political science and government from Tufts University, Boston, MA. Teddy worked on a number of technical projects during his tenure, including Economic Condition Reporting: Financial Projections, Fiduciary Responsibilities, the user guide series, and research on Other Postemployment Benefits.

***Paul Nabhan*** will join Deloitte’s Financial Accounting & Reporting practice as a senior consultant in New York City. He came to the GASB from the University of Texas at Austin, where he received a bachelor’s degree in business administration and a master’s degree in accounting. Paul worked on a number of technical projects during his tenure, including Conceptual Framework: Recognition and Measurement Approaches, the *Comprehensive Implementation Guide,* and research on Leases.

***The Fair Value Measurement and Application Field Test***

The GASB is soliciting participants for a field test it is conducting in conjunction with the issuance of a Preliminary Views in its Fair Value Measurement and Application project. All state and local governmental entities, including pension plans that administer pensions for state and local governments, are eligible and welcome to participate.The GASB recently approved a Preliminary Views, *Fair Value Measurement and Application,* which proposes new accounting standards regarding which assets and liabilities should be measured at “fair value,” how that value should be determined, and what note disclosures should be included with fair value measures. (Please see the related article on page 1.) The application of the Board’s proposed requirements in the Preliminary Views, if ultimately issued as a Statement, would enhance financial statement users’ ability to assess the government’s accountability and provide more decision-useful information.

Field tests are a part of the GASB’s due process activities and help the GASB to establish effective standards. Participating entities volunteer to go through the exercise of “implementing” the proposal as if it were in place and then provide feedback to the GASB regarding that process. Field tests point out potential problems related to the implementation of proposed standards and allow the GASB to gather valuable information about implementation costs.

GASB field tests can provide participants with a variety of benefits, not the least of which is being able to ask the GASB project staff questions regarding implementation issues. This gives participants a significant head start on implementation when the final standard is issued. The GASB publicly acknowledges the assistance of entities that participate in its field tests for those that wish to be acknowledged.

Those interested in being a part of the field test first participate in a pre-test interview. Afterward, a participating entity would apply the requirements of the proposal and answer certain related questions. It is expected that participants will have between six to eight weeks after the issuance of the Preliminary Views to complete the field test.

Entities interested in participating in the Fair Value Measurement and Application field test should contact GASB Project Manager Randy Finden either by e-mail at rjfinden@gasb.org or by telephone at (203) 956-5240.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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