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

***No. 324-C / March 2012***

*(The GASB Report No. 286)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***April 18–20***

***May 30–June 1***

The GASB also is scheduled to meet via **teleconference** on **May 7** and **June 18.** 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 holding a public hearing on the Preliminary Views, *Economic Condition Reporting: Financial Projections,* 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.

***GASB Issues Statements No. 65 and No. 66***

The GASB has approved Statements No. 65, *Items Previously Reported as Assets and Liabilities,* and No. 66, *Technical Corrections—2012,* an amendment of GASB Statements No. 10 and No. 62.

These Statements reclassify certain items currently reported as assets and liabilities and resolve conflicting guidance that resulted from the issuance of two recent Statements.

***Items Previously Reported as Assets and Liabilities***

Specifically, Statement 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, respectively, and recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues), respectively. The determinations detailed in the Statement are based on the definitions of those elements in Concepts Statement No. 4, *Elements of Financial Statements.*

Concepts Statement 4 identifies consumptions and acquisitions of net assets related to future periods as deferred outflows of resources and deferred inflows of resources, respectively. Because that Concepts Statement explicitly specifies that reporting deferred outflows of resources and deferred inflows of resources should be limited to those instances identified in GASB authoritative pronouncements, the guidance imparted in Statement 65 is needed to determine which of these items—for example, deferred charges and deferred revenues—should be reported as deferred outflows of resources or deferred inflows of resources rather than as assets or liabilities, respectively.

Currently, two GASB pronouncements require the recognition of deferred outflows of resources and deferred inflows of resources. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires reporting deferred outflows of resources and deferred inflows of resources in certain cases. That Statement provides for the deferral of changes in the fair value of hedging derivatives, for example.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which is effective for financial statements for periods beginning after December 15, 2011, also requires reporting deferred inflows of resources in specific situations. That Statement requires the deferral of certain up-front payments a government receives from an entity it has contracted with to operate a major capital asset, such as a toll road or hospital, for example.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which is effective for financial statements for periods beginning after December 15, 2011, provides financial statement presentation guidance for these elements; however, it does not identify any additional items that should be reported within these element classifications. Statement 63 applies only to items that have been specifically identified by the GASB as deferred outflows of resources and deferred inflows of resources.

Project deliberations that resulted in the issuance of Statement 65 examined the existing GASB literature for items that could potentially meet the criteria for being reported as deferred outflows of resources and deferred inflows of resources. As a result of the Board’s deliberations, some assets will continue to be classified as assets, others will be reported as deferred outflows of resources, and still others will be recognized as outflows of resources. Similarly, some liabilities will continue to be classified as liabilities, others will be reported as deferred inflows of resources, and still others will be recognized as inflows of resources.

The following is a list of some examples of the classification of the items as provided in the Statement:

***Transactions in which the resulting item should continue to be reported as an asset***

• Prepayments (paragraph 73 of NCGA Statement No. 1, *Governmental Accounting and Financial Reporting Principles*)

• Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than a time requirement have not been met (Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*)

• The purchase of future revenues from a government outside the financial reporting entity (Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*)

***Transactions in which the resulting item should be reported as a deferred outflow of resources***

• Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when a time requirement is the only eligibility requirement that has not been met by the other government (Statement 33)

• Deferred debit amounts resulting from the refunding of debt (Statements No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*)

***Transactions in which the resulting item should be reported as an outflow of resources***

• Acquisition costs for insurance entities and public entity risk pools (Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* and Statement 62)

• Debt issuance costs (Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt,* and Statement 62)

***Transactions in which the resulting item should continue to be reported as a liability***

• Resources received in advance in relation to a derived tax revenue nonexchange transaction (Statement 33)

• Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than a time requirement have not been met (Statement 33)

• Resources received in advance of an exchange transaction (Statement 62)

***Transactions in which the resulting item should be reported as a deferred inflow of resources***

• Resources received in advance in relation to an imposed nonexchange transaction (Statement 33)

• Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when time requirements are the only eligibility requirement that has not been met by the receiving government (Statement 33)

• Deferred credit amounts resulting from the refunding of debt (Statements 23 and 62)

***Transactions in which the resulting item should be recognized as an inflow of resources***

Net balance (credit) of loan origination fees:

• Excluding any portion related to points related to lending activities (Statements 10 and 62)

• Excluding any portion related to points for mortgage loans held for investment (Statement 62)

• Including any portion related to points for mortgage loans held for resale after the sale occurs (Statements 10 and 62)

Statement 65 provides additional financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Specifically, this guidance states that the use of the term *deferred* should be limited to items reported as deferred outflows of resources and deferred inflows of resources. In addition, with respect to the major fund criteria, as established in paragraph 76 of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments,* assets should be combined with deferred outflows of resources and liabilities should be combined with deferred inflows of resources.

The requirements of Statement 65 improve financial reporting by standardizing the use of deferred outflows of resources and deferred inflows of resources in financial statements. In addition, uncertainty regarding the classification of items that may seem to meet the definition of a deferred outflow of resources or a deferred inflow of resources is diminished.

***Proposed Effective Date***

The provisions of Statement 65 are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

***Technical Corrections—2012***

Statement 66 provides accounting and financial reporting guidance that resolves conflicting guidance that resulted from the issuance of two recent Statements: Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and Statement 62.

Since the release of Statement 54, questions have arisen regarding differences between the provisions of Statement 10 and Statement 54, regarding the reporting of risk financing activities. Since the release of Statement 62, questions have come to light with respect to reporting differences between the provisions of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* Statement 48, and Statement 62, regarding the reporting of certain operating lease transactions, the reporting of the acquisition of a loan or group of loans, and the recognition of servicing fees relating to mortgage loans that are sold.

***Risk Financing Activities***

Statement 10, which was issued in 1989, establishes guidance for state and local governmental entities’ risk financing and insurance-related activities. Paragraph 63 requires that if a single fund is used to account for an entity’s risk financing activities, it should either be the general fund or an internal service fund.

Statement 54, which was issued in 2009, enhances the usefulness of fund balance information by providing greater clarity with respect to the related fund balance classifications that can be applied more consistently and by clarifying the fund type definitions. Though the definition of a special revenue fund provided in Statement 54 would allow for certain risk financing activities to be reported in a special revenue fund, the specific guidance provided in paragraph 63 of Statement 10 was not superseded. Consequently, Statement 66 amends Statement 10 by removing paragraph 63 and amending other paragraphs that only refer to the general fund. As a result, governments should now base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement 54.

***Operating Leases***

Statement 13 establishes guidance for governments that enter into operating leases with scheduled rate increases. The guidance provided in paragraphs 6a and 6b of Statement 13 allows the lessor government to recognize operating lease payments either on a straight-line basis over the lease term or based on the estimated fair value of the rental.

Statement 62, which was issued in December 2010, incorporated into the GASB’s authoritative literature certain guidance that is included in Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements as long as that literature does not conflict with or contradict GASB pronouncements. The guidance on reporting operating leases that originated from FASB Statement No. 13, *Accounting for Leases,* was incorporated into the GASB authoritative literature with the issuance of Statement 62.

Statement 66 amends Statement 62 by modifying the specific guidance on accounting for operating lease payments that vary from a straight-line basis and eliminating any uncertainty regarding the application of Statement 13.

***Purchase of Loans or Groups of Loans***

Statement 48 establishes guidance for governments that exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The guidance contained in paragraph 13 of Statement 48 requires that the transferee government recognize the receivables acquired at the purchase price.

However, Statement 62 brought into the GASB’s authoritative literature guidance on the reporting of the purchase of a loan or group of loans that is contained in FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases.* That guidance requires the purchaser to recognize a premium or discount for the difference between the initial investment and the principal amount of the loans.

Statement 66 amends Statement 62 by modifying the specific guidance on accounting for the difference between the initial investment and the principal amount of a purchased loan or group of loans and results in guidance that is consistent with the requirements in Statement 48.

***Servicing Fees***

Paragraph 460 of Statement 62 includes guidance on recognition by a transferor for servicing fees related to mortgage loans that are sold when the stated servicing fee rate differs significantly from a current (normal) servicing fee rate. Specifically, it requires that when a transferor retains the servicing rights to mortgage loans that have been sold, the gain or loss should be adjusted to recognize the difference between a “normal servicing fee” and the fee that is stipulated in the sale agreement.

However, that requirement conflicts with the provisions of paragraph 13 of Statement 48, which require a gain or loss to be recognized without such an adjustment to the sales price. After deliberation, the Board concluded that, due to this conflict, paragraph 460 should not have been included in Statement 62. Consequently, Statement 66 amends Statement 62 to exclude the guidance in paragraph 460 that conflicts with Statement 48.

***Effective Date***

The requirements of Statement 66 are effective for periods beginning after December 15, 2012. Earlier application is encouraged.

***How to Order Copies***

Statement 65 (product code GS65) and Statement 66 (product code GS66) may be obtained through the GASB Order Department by calling (800) 748-0659 or through the GASB Store section of the GASB website at [www.gasb.org](http://www.gasb.org).

***GASB Issues Exposure Draft on Government Combinations and Disposals of Government Operations***

At the March meeting, the GASB approved for issuance an Exposure Draft of a proposed Statement, *Government Combinations and Disposals of Government Operations.* The proposal addresses accounting and financial reporting topics related to government combinations, commonly referred to as mergers and acquisitions. In addition, the proposed Statement would provide accounting and financial reporting for 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. As a consequence, the guidance being applied addresses conditions and circumstances that are not normally encountered in government combinations. The proposed Statement would provide accounting and financial reporting guidance specifically intended for the government environment to address its unique conditions and circumstances.

The proposed Statement would provide guidance for identifying types of government combinations to assist governments in applying the accounting and financial reporting requirements in a consistent manner. For the purposes of the proposal, the term *government combinations* refers to three types of government combinations: government mergers, government acquisitions, and transfers of operations.

***Government Mergers***

The proposal 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.

As described in the proposed definition of a government merger, mergers may result in the formation of a new government or the continuation of an existing government. For a new government that results from such a merger, the proposed merger date is the date at which the combination becomes effective. It is also the date at which the initial reporting period begins. The combined assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities would be included in the statement of net position at the beginning of that initial reporting period.

For a continuing government, the proposed merger date is the beginning of the reporting period in which the merger occurs, regardless of the actual date of the merger. Continuing governments would report the combined assets, deferred outflows of resources, liabilities, and deferred inflows of resources and the results of operations of the merging entities for the reporting period in which the combination occurs as though the entities had been combined at the beginning of the continuing government’s reporting period.

Both new and continuing governments would measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of the merger date at the carrying values as reported in the separate financial statements of the merging entities. 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 principles of the merging entities into alignment. Governments also may be required to adjust certain carrying values of capital assets for impairment as a result of the merger.

***Government Acquisitions***

The proposal 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 would 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. For purposes of the proposed Statement, *acquisition value* is a market-based entry price.

The consideration provided by the acquiring government would be 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) would not constitute consideration given for purposes of the proposed Statement.

For circumstances in which the consideration provided exceeds the net position acquired, the acquiring government would report the difference as a deferred outflow of resources. This deferred outflow would be attributed to future periods in a systematic and rational manner. Alternatively, for circumstances in which the consideration provided is less than the net position acquired, the acquiring government would eliminate the excess net position acquired by reducing the acquisition values assigned to the noncurrent assets unless the conditions of the acquisition arrangement indicate that a contribution should be recognized by the acquiring government.

***Transfers of Operations***

The proposed Statement also would provide 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 proposal 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 proposed to be 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, would be applied for these arrangements.

***Disposals of Governmental Operations***

The proposed Statement would provide guidance for disposals of government operations that have been transferred or sold.

Upon the disposal of operations, governments would recognize a gain or loss, which would be 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 would provide a brief description of the facts and circumstances leading to the disposal of those operations. The government also would 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.

***Disclosures***

For each government combination, governments would 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 would 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 would 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 would 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, including the basis for determining the amount of payments that are contingent.

***Proposed Effective Date***

The requirements of the proposed Statement would be effective for periods beginning after December 15, 2013, and would be applied on a prospective basis. Early application would be encouraged.

***How to Obtain Copies of the Exposure Draft***

Copies of the Exposure Draft may be downloaded free of charge from www.gasb.org. The comment deadline is June 15. Additional details on how to provide comments to the GASB on the proposal are available in the front of the Exposure Draft.

***Board Meeting Summary***

The GASB held a public meeting on March 6–8 in Norwalk, Connecticut, to discuss issues associated with its projects on pension accounting and financial reporting, government combinations, items previously reported as assets and liabilities, technical corrections, financial guarantees, and the measurement and application of fair value.

The Board also met via teleconference on March 27 to discuss issues related to its project on pension accounting and financial reporting. Due to publication deadlines, details of the teleconference deliberations are not described in this issue of *The GASB Report* but will be highlighted in the next issue.

***Pension Accounting and Financial Reporting***

In its project addressing pension accounting and financial reporting, the Board continued its deliberation of issues raised by respondents to the Exposure Drafts, *Accounting and Financial Reporting for Pensions* (Employer Exposure Draft) and *Financial Reporting for Pension Plans* (Plan Exposure Draft). Specifically, the Board considered issues related to (1) the timing and frequency of the measurement of the net pension liability for single and agent employers and single-employer and cost-sharing multiple-employer plans and (2) single and agent employer pension expense recognition.

***Timing and Frequency of Measurements***

With regard to the timing of the measurement of the net pension liability for single and agent employers, the Board tentatively agreed to modify the Employer Exposure Draft proposal that would have required a single or agent employer to recognize its net pension liability as of its fiscal year-end. The Board tentatively decided that a single or agent employer should be permitted to recognize a net pension liability that is measured as of a date (referred to as the measurement date) no earlier than the end of its prior fiscal year, consistently applied from period to period.

The Board tentatively agreed that the total pension liability component of the net pension liability should be determined at the measurement date either by (1) an actuarial valuation as of that date or (2) the use of update procedures to roll forward amounts to the measurement date from an actuarial valuation as of a date no more than 30 months (plus 1 day) prior to the employer’s fiscal year-end. The Board also tentatively affirmed the Employer Exposure Draft proposal that would require a single or agent employer to obtain, for financial reporting purposes, actuarial valuations of the total pension liability at least biennially.

With regard to the procedures used to update an actuarial valuation to the measurement date and the proposal to require that measures reflect the effects of significant changes, if any, that occur after the actuarial valuation date, the Board affirmed the Employer Exposure Draft proposal to rely, generally, upon professional judgment to evaluate the significance of changes and to determine the update procedures that are necessary to reflect those changes. However, the Board tentatively agreed that the final Statement should include additional clarification that the effects of changes in the discount rate on the total pension liability should be considered in the evaluation of significant changes.

To the extent that update procedures are used, the Board affirmed the Employer Exposure Draft proposal to require the effects of significant changes that occur between the actuarial valuation date and the measurement date to be reflected in the measure of the net pension liability of a single or agent employer. The Board tentatively agreed that, if the employer reports a net pension liability measured as of a date other than its fiscal year-end and significant changes occur between the measurement date and its fiscal year-end, the employer should disclose information about the nature of the change and, if known, an estimate of the financial impact of the change.

The Board also discussed concerns raised by respondents related to obtaining updated measures subsequent to the employer’s fiscal year-end but prior to the issuance of the financial statements and tentatively decided that current subsequent events guidance should be applied and that no additional clarifying guidance related to this issue is needed in the final Statement.

To the extent that the Board affirms at a subsequent meeting that measures of the net pension liability of the employer(s) should be required to be included in the financial report of a single-employer or cost-sharing multiple-employer pension plan (for example, in a note disclosure), the Board tentatively affirmed the Plan Exposure Draft proposals related to the timing and frequency of the measurement of the net pension liability of the employer(s).

***Expense Recognition***

The Board discussed the overall approach to single and agent employer pension expense recognition as proposed in the Employer Exposure Draft and tentatively decided to modify the Employer Exposure Draft proposals related to the recognition of the effects on the total pension liability of differences between expected and actual experience with regard to economic or demographic factors (differences between expected and actual experience) and the effects of changes of assumptions about future economic or demographic factors (changes of assumptions). Specifically, the Board tentatively agreed that differences between expected and actual experience and changes of assumptions for all employees (both active and inactive, including retirees) should be recognized as deferred outflows of resources and deferred inflows of resources. The Board tentatively decided that the resultant deferred outflows of resources and deferred inflows of resources should be recognized in pension expense over the average expected remaining service lives of all employees and retirees, both active and inactive, if applicable, using a systematic and rational, closed-period method. Additionally, the Board requested that the project staff verify details about the calculation related to the expected remaining service lives of all employees, both active and inactive, to ensure that practice is consistent with the Board’s understanding of the calculation.

The Board affirmed the Employer Exposure Draft proposal to require differences between projected and actual plan investment earnings to be recognized in pension expense over a closed five-year period, in a systematic and rational manner. With regard to the presentation of deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual plan investment earnings, the Board tentatively agreed to modify the Employer Exposure Draft proposal to instead require that deferred outflows of resources and deferred inflows of resources resulting from differences between projected and actual plan investment earnings be presented on a net basis in the employer’s statement of net position.

With regard to expense recognition for changes in the net pension liability resulting from other events (for example, service cost, interest, benefit changes, and projected earnings on plan investments), the Board tentatively affirmed the approach proposed in the Employer Exposure Draft, which would require recognition of those effects as pension expense in the period of the change.

***Government Combinations***

In its project on government combinations, the Board began its discussion of the ballot draft of a proposed Statement by considering proposed terminology. After resolving a series of definitional issues, the Board reviewed and approved the issuance of the Exposure Draft, *Government Combinations and Disposals of Government Operations.* (Please see the related article on page X.)

***Items Previously Reported as Assets and Liabilities***

After reviewing the ballot draft and making minor clarifying changes, the Board approved the issuance of Statement No. 65, *Items Previously Reported as Assets and Liabilities.* (Please see the related article on page X.)

***Technical Corrections***

The Board reviewed the ballot draft of Statement No. 66, *Technical Corrections—2012,* an amendment of GASB Statements No. 10 and 62, and made minor clarifying changes.

The Board also considered a respondent comment letter which indicated that paragraph 460 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which provides guidance on recognition by a transferor for servicing fees related to mortgage loans that are sold, conflicts with the provisions in paragraph 13 of Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*

After voting to add this issue to Statement 66 and to include a requirement to delete paragraph 460 of Statement 62 in its entirety, the Board approved the issuance of Statement 66. (Please see the related article on page X.)

***Financial Guarantees***

In addressing its project on financial guarantees, the Board discussed issues regarding the recognition of financial guarantees resulting from nonexchange transactions when both the government extending the guarantee and the government whose obligation is guaranteed are a part of the same reporting entity. The Board tentatively agreed to propose that liabilities for guarantees extended on obligations within the same reporting entity should not be recognized until the government extending the guarantee is required to make a payment on the guarantee or has legally assumed the liability for the obligation.

In considering whether the financial guarantees project also should include guarantees resulting from exchange transactions, the Board tentatively agreed to propose that the scope of the financial guarantees project should be limited to guarantees provided and received as a result of nonexchange transactions.

Next, the Board discussed note disclosures for both governments that extend financial guarantees and governments that issue obligations that have financial guarantees as a result of nonexchange transactions. The Board tentatively agreed to propose that governments that extend guarantees of the debt of others should disclose certain information about the nature and amount of guarantees extended. Information regarding the nature of a guarantee extended should include, for example, a description of the obligations that are guaranteed for each type of financial guarantee extended. Information regarding the amount of guarantees extended should include, for example, a schedule of changes in recognized liabilities, disclosure of beginning- and end-of-year balances, increases, decreases, and adjustments.

The Board also tentatively agreed that governments that issue the debt that is guaranteed should disclose certain information on the details and conditions of the guarantee, including, for example, the name of the entity providing the guarantee and a summary of the events or circumstances that would require the guarantor to make payment.

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

The Board continued deliberations for the fair value measurement and application project with specific focus on valuation techniques and measurement inputs.

In discussing Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) literature as it pertains to the market and income valuation techniques, the Board tentatively agreed that governments should apply these techniques. The Board also discussed the current replacement cost valuation technique and will consider its implications for governmental entities in more detail at future meetings. After a discussion of various valuation techniques, the Board tentatively agreed to propose that multiple valuation techniques may be applied. The valuation technique that should be applied is the technique that in the practitioner’s professional judgment best represents fair value. The Board considered FASB and IASB guidance that establishes a hierarchy of inputs for fair value measurements and tentatively agreed to propose a similar methodology, requiring practitioners to apply Levels 1, 2, and 3 inputs.

The Board tentatively agreed to propose that adjustments to the inputs in a fair value measurement for a blockage factor should be prohibited, regardless of an input’s categorization within the fair value hierarchy. Level 1 inputs should be utilized when available and not adjusted for premiums or discounts. Levels 2 and 3 inputs may incorporate discounts and premiums to the extent that these characteristics would be considered by market participants when pricing the asset or liability.

The Board considered FASB and IASB guidance, and existing GASB guidance on the use of bid and ask spreads for the purpose of determining fair value. The Board tentatively decided to gather more information from the Fair Value Measurement and Application Task Force before reaching a tentative decision.

In the original project plan, the fair value measurement and application project was divided into two parts. The first part addresses fair value as a general proposition, and the second part addresses application issues. Given this approach, the Board tentatively decided to have the staff prepare a draft of a proposed standard that reflects the major tentative decisions to date before starting deliberations on application issues.

***GASAC Meeting—March 2012***

Members of the Governmental Accounting Standards Advisory Council (GASAC) met on March 8 and 9 at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut. The GASAC’s agenda included updates on the activities of the FAF and on projects on the GASB’s current technical agenda.

Over the course of the day-and-a-half meeting, GASAC members provided significant feedback to the GASB on issues associated with several projects, including pension accounting and financial reporting, financial guarantees, and fair value measurement and application. The members of the GASAC addressed tentative decisions made by the GASB in these projects and offered input on open questions that the Board will address in the future.

GASAC members provided feedback on the pension accounting and financial reporting project with respect to the Board’s tentative decisions made since the November GASAC meeting on issues raised by respondents to the Exposure Drafts, *Accounting and Financial Reporting for Pensions,* and *Financial Reporting for Pension Plans.* These decisions include those on the scope and applicability of the Exposure Drafts, information about pension funding in employer financial reports, and measurement and recognition issues related to the net pension liability of single and agent employers including the projection of benefit payments, the discount rate, the attribution method, the timing and frequency of the measurement, and other matters. In addition, members provided feedback on the decisions related to the recognition of pension expense by single and agent employers. Finally, members provided feedback on liability and expense-related issues relative to cost-sharing employers that will be deliberated by the Board at the April meeting.

With respect to the financial guarantees project, GASAC members provided input on issues including the Board’s tentative decisions regarding recognition and measurement by the guarantor for the extension of a single financial guarantee and groups of similar financial guarantees, recognition and measurement by an issuer of a guaranteed obligation, and recognition and measurement by a holder of a guaranteed obligation.

Regarding the fair value measurement and application project, members of the GASAC offered input on issues including those with respect to fair value measurements of nonfinancial assets, considering the highest and best use of those assets as determined by market participants, orderly transactions as defined by the Financial Accounting Standards Board and the International Accounting Standards Board, and fair value measurement of a government’s liabilities that take the government’s credit standing into consideration.

GASAC members also provided input to the GASB regarding their individual priorities with respect to the GASB’s technical plan. The project prioritization discussion of research projects and potential projects ranked leases, fiduciary responsibilities, the GAAP hierarchy, tax abatement disclosures, and electronic financial reporting as members’ top five priorities for the GASB’s technical agenda.

The annual discussion about the relative priorities of potential projects for the GASB technical plan is an important part of the agenda formation process. The prioritization discussion is timed to take place shortly before the Board’s first consideration of the technical plan each year. As a result, the GASAC’s input feeds directly into the Board’s consideration of the technical plan at its April 2012 meeting. Ultimately, determinations about which projects will be added to the research and current agendas are made by the GASB chairman.

The next GASAC meeting is scheduled to be held on June 18 and 19 in Seattle, Washington, in conjunction with the American Public Power Association’s National Conference.

***About the GASAC***

The GASAC is responsible for consulting with the GASB on technical issues on the Board’s agenda, project priorities, matters likely to require the attention of the GASB, and other such matters as may be requested by the GASB or its chairman. The GASAC’s 30 members are appointed by the FAF Trustees primarily from nominations by GASB constituent groups and are broadly representative of the preparers, auditors, and users of state and local governmental financial information.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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