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

***No. 335 / March 2013***

*(The GASB Report No. 298)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***May 14–16***

***June 25–27 (The June 27 meeting will take place at the LaGuardia Marriott, East Elmhurst, New York.)***

The GASB also is scheduled to meet via teleconference on **April 22** and **June 3.** 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 FAF Board of Trustees will meet on May 22 in Washington, D.C.

Finally, the GASB will be meeting with the Governmental Accounting Standards Advisory Council on June 27 and 28 in East Elmhurst, New York (LaGuardia Marriott).

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.

***New User Guide on Business-Type Activities Now Available***

*What You Should Know about the Finances of Your Government’s Business-Type Activities: A Guide to Financial Statements* is now available.

This all new guide offers users of governmental financial statements a comprehensive, easy-to-understand primer on the annual financial reports of business-type activities (BTAs). *What You Should Know about the Finances of Your Government’s Business-Type Activities* focuses on the unique features of financial reporting by the activities that governments operate similar to businesses, charging fees in return for service.

In addition to introductory and background material, the new guide addresses issues specific to BTAs that users should be familiar with, including:

• The statement of net position

• The statement of revenues, expenses, and changes in net position

• The statement of cash flows

• Notes to the financial statements

• Management’s discussion and analysis

• The statistical section

• Information on regulated BTAs.

The BTA guide presents illustrative financial statements for a water and sewer utility, an airport, a public hospital, a public university, a toll road authority, a mass transit system, and a rate-regulated electric utility. The new guide will supply readers with the tools necessary to open a BTA’s financial statements and understand what they say more clearly than they might otherwise have been able to do.

***New Editions of All GASB User Guides Are Now Available***

With the publication of the new BTA guide, the process of fully updating and expanding the user guide series is now complete. Introduced about a decade ago, this series introduces state and local government financial reports to a broad, non-accountant audience using a minimum of technical language.

The GASB’s three *What You Should Know* guides—the BTA guide, *What You Should Know about Your Local Government’s Finances,* and *What You Should Know about Your School District’s Finances—*include features designed to assist the reader at all points on the spectrum—from those who are new to governmental financial statements to the experienced reader. The What You Should Know guides provide a comprehensive but accessible introduction to the annual financial reports of counties, cities, towns, school districts, and BTAs.

Unlike the other guides in the series, *An Analyst’s Guide to Government Financial Statements* is aimed at those with a basic knowledge of accounting and government finance. It explores how basic analytical techniques may be applied to the information in financial reports to assess issues such as financial position, liquidity, solvency, fiscal capacity, and risk exposure. The new edition of *An Analyst’s Guide to Government Financial Statements* incorporates the separate guide on note disclosures and supporting information to create a comprehensive updated guide to the full annual report.

Each guide in the GASB user guide series offers annotated illustrations, sidebars exploring issues raised in the text, detailed definitions and explanations, tips on using financial statement information, an extensive glossary, and an overview of public-sector accounting and financial reporting.

All editions in the user guide series may be ordered through the Store section of the GASB website, www.gasb.org, or by calling the GASB Order Department at (800) 748-0659.

***Board Meeting Summary***

The GASB held a public meeting February 19–21 to discuss issues associated with its projects on Financial Guarantees, Fair Value Measurement and Application, Recognition and Measurement Approaches under the Conceptual Framework, the Hierarchy of Generally Accepted Accounting Principles, and Accounting and Financial Reporting for Other Postemployment Benefits.

The GASB also met via teleconference on March 11 to discuss issues related to its projects addressing financial guarantees, fair value measurement and application, the hierarchy of generally accepted accounting principles, and the implementation guide on financial reporting for pension plans. Due to publication deadlines, details of those deliberations are not described in this issue of *The GASB Report* but will be highlighted in the next issue.

***Financial Guarantees***

The Board deliberated issues related to intra-entity guarantees raised by respondents to the Exposure Draft, *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions,* and reconsidered previous tentative decisions related to scope and recognition.

Initial Board discussion focused on issues related to the recognition of a liability for a nonexchange financial guarantee extended by a government for an obligation of another unit within the same reporting entity. The Board tentatively decided that the final Statement should provide for symmetry in an intra-entity guarantee in specific situations. For example, the final Statement would require that the issuer of a guaranteed obligation that is a blended component unit record a receivable from the guarantor when the guarantor records a liability to the blended component unit, along with additional disclosures.

The Board tentatively agreed to clarify that guarantees of obligations of component units are included in the scope by adding specific language to the scope section of the final Statement.

The Board then tentatively affirmed its prior tentative decisions to (1) exclude both exchange and exchange-like financial guarantees from the scope and (2) recognize a nonexchange financial guarantee liability when it is more likely than not that a payment will be made by the guarantor.

***Fair Value Measurement and Application***

As a continuation of the application portion of the Fair Value Measurement and Application project, the Board deliberated fair value disclosures. The Board tentatively agreed to propose the following disclosures:

* Valuation techniques and inputs, replacing existing disclosures of methods and significant assumptions

• The effect of the measurements on investment income for recurring fair value measurements using significant Level 3 unobservable inputs

• For the two preceding tentative disclosures, the level of detail and aggregation should consider:

* The level of detail necessary to satisfy the disclosure requirements
* How much emphasis to place on each of the various requirements
* How much aggregation or disaggregation to undertake
* Whether users of financial statements need additional information as described in the proposed Statement to evaluate the quantitative information disclosed.

• Values measured using Level 3 inputs, compared to the level of detail for values measured using Level 1 and Level 2 inputs

• Fair value measurements by asset and liability class and level of the fair value hierarchy, either in a table or a narrative

• Quantitative information about significant Level 3 inputs as well as disclosure of the valuation techniques and inputs used in Level 2 and Level 3 fair value measurements

• Changes in a valuation technique that have a significant impact on the resulting measurement

• A narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs for fair value measurements categorized within Level 3.

Finally, the Board tentatively decided that consistent application and disclosure of accounting policy and policy changes as provided in Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* should be referenced in the Basis for Conclusions of the standard.

In conjunction with the Conceptual Framework project, the Board also tentatively decided that one of the tentative proposals developed previously in the Fair Value Measurement and Application project—that capital assets held for sale should be reported at the lower of cost or fair value—should be withdrawn. The Board tentatively agreed that capital assets held for sale should not be classified as investments and, therefore, are not in the scope of the Fair Value project.

***Conceptual Framework—Recognition and Measurement Approaches***

The Board’s discussion focused on assessing the completeness and potential for overlap of the measurement attributes of historical cost (or proceeds), fair value, acquisition value, replacement cost, and settlement amount. The Board tentatively agreed that acquisition value should not be presented as a separate measurement attribute. Rather, acquisition value should be identified as a term that refers to either a replacement cost or a settlement amount determined as of the acquisition date of the asset or liability. The Board also tentatively decided that replacement cost should be applicable only to assets.

Next, the Board tentatively decided that with the exception of lower of cost or market measurements, the list of measurement attributes was sufficiently complete based upon the evaluation of the basic characteristics of measurements used in existing standards; consequently, no overlap among the measurement attributes remained to be addressed. With respect to the use of lower of cost or market measurements, the Board determined that it would not be appropriate to include a discussion of this type of measurement in the proposed Concepts Statement because it represents an application of two different measurement attributes, rather than a separate measurement attribute.

***Hierarchy of Generally Accepted Accounting Principles***

In its project addressing the GAAP hierarchy, the Board considered revisions to the method used when conducting the analysis of the *Comprehensive Implementation Guide* on an individual question-and-answer (Q&A) basis. The Board tentatively elected to modify the current criteria to include the ability to improve the guidance provided in a Q&A, separate an illustration from authoritative guidance, combine Q&As, and remove Q&As that only provide the basis for conclusions or the applicability of nonauthoritative literature.

Next, the Board deliberated the current role of the American Institute of Certified Public Accountants (AICPA) in the standards-setting process and governmental financial reporting environment and evaluated alternatives for placement of GASB-cleared AICPA pronouncements within the GAAP hierarchy. The Board tentatively agreed to propose that the AICPA continue to be recognized as an organization that promulgates authoritative accounting and financial reporting guidance. This status, however, would be dependent on the authoritative pronouncements being subject to a mutually agreed-upon due process and continuing to be cleared by the GASB.

The Board concluded its discussion by addressing the creation of a second authoritative level, below authoritative GASB pronouncements, in the GAAP hierarchy. The Board tentatively agreed to propose that AICPA pronouncements cleared by the GASB be placed within the second authoritative level.

***Other Postemployment Benefits***

The Board considered issues related to the attribution of the present value of expected benefits in the measurement of an other postemployment benefits (OPEB) liability. After discussion, the Board tentatively decided to propose that the method used to attribute the actuarial present value of projected benefit payments to periods of service in the measurement of an OPEB liability be the entry age actuarial cost method, with each period’s service cost determined as a level percentage of pay. The Board also tentatively decided to propose that benefits be attributed to periods beginning in the first period in which the employee’s service accrues OPEB benefits in accordance with the OPEB arrangement, notwithstanding vesting or similar terms, through all assumed exit ages.

Finally, the Board discussed issues related to the reliability of the measurement of a net OPEB obligation for recognition in the financial statements of a state or local government. The Board tentatively decided that an employer’s net OPEB obligation is measurable with sufficient reliability for recognition as an element of the financial statements and that the measurement sufficiently reflects the qualitative characteristics of understandability, relevance, timeliness, consistency, and comparability.

***New Members Named to 2013 Comprehensive Implementation Guide Advisory Committee***

GASB Chairman Robert H. Attmore recently announced the appointment of four new members to the *Comprehensive Implementation Guide* advisory committee for 2013. The new members, who were each appointed to three-year terms, are:

• Susan Friend, director, Accounting Division, Finance & Administrative Services Department, Broward County, Florida

• Stephen J. Gauthier, director, Technical Services Center, Government Finance Officers Association

• Wendy Jarrett, assistant director, Accounting Division, Office of Financial Management, State of Washington

• Charles Tegan, comptroller, Office of the Comptroller, Clemson University.

Continuing members of the advisory committee are:

• Brian Conner, partner, Health Care Services Industry Group, Moss Adams, LLP

• Susan Convey, professor of practice, Accounting and Information Services, Michigan State University

• Susan Lowensohn, assistant professor of accounting, College of Business, Colorado State University

• Jeffrey N. Markert, partner, Department of Professional Practices, KPMG, LLP

• Andy Richards, partner, BKD, LLP

• George A. Scott, partner, Public Sector Services, Deloitte & Touche LLP

• Stuart T. Stickel, deputy state auditor, Department of the Chief Inspector, State Auditor’s Office, State of West Virginia.

The GASB wishes to recognize the following former advisory committee members whose terms have concluded:

• Eric Bartholomew, CAFR reporting manager, Office of the Comptroller Operations, Commonwealth of Pennsylvania

• Anne A. Fritz, director, Finance Department, City of St. Petersburg, Florida

• Jake W. Lorentz, assistant director, Technical Services Center, Government Finance Officers Association

• Kenneth J. Wilson, division controller, University of Michigan.

***What Do Advisory Committees Do?***

Advisory committees are established to assist the GASB with the development of practice issue projects, including question-and-answer implementation guides. The members of an advisory committee bring a particular expertise to the table that is relevant to the subject matter.

***How Are Participants Selected?***

Advisory committees are officially appointed by the GASB chairman after consultation with the other GASB members, the Governmental Accounting Standards Advisory Council (GASAC) chairman, and GASB staff.

Potential participants are identified from the GASB’s constituent database, from the GASAC, and from the lists of persons submitting comment letters in response to proposed standards. In addition to identifying persons that possess relevant knowledge and experience and that are representative of various types of constituents, the GASB tries to select persons it believes will actively participate by reviewing papers and proposals prepared for the Board and by providing regular feedback to the project staff.

***GASB Offers Governmental Accounting Research System***™ ***Online Platform***

The GASB has launched a new, online platform for the *Governmental Accounting Research System*™ (GARS Online). While GARS was previously available only on CD-ROM, the new GARS Online platform provides easy access to all U.S. Generally Accepted Accounting Principles and related literature for state and local governments. GARS Online is available through four service plans designed to accommodate a variety of user needs.

Advanced navigational and other special features of the new online platform, including annotations, feedback utilities, advanced search functions, and update capabilities reduce the time and effort needed to research state and local governmental accounting and financial reporting standards.

GARS Online contains the same GASB content as the CD-ROM version, including:

• **Original Pronouncements—Governmental Accounting and Financial Reporting Standards—**including the original versions of GASB Statements, Concepts Statements, Technical Bulletins, and Interpretations, with National Council on Governmental Accounting pronouncements and selected American Institute of CPAs materials.

• **Codification of Governmental Accounting Standards and Financial Reporting Standards—**an integrated view of the current version of accounting and financial reporting standards for state and local governments, organized by General Principles, Financial Reporting, Specific Balance Sheet and Operating Statement Items, and Stand-Alone Reporting—Specialized Units and Activities.

• **Comprehensive Implementation Guide—Questions and Answers—**a compilation of questions and answers and illustrative material developed to assist financial statement preparers and auditors in the implementation and application of selected GASB pronouncements.

• **Topical Index—**a cross-reference to currently effective guidance in documents included in the Original Pronouncements, sections of the Codification, and questions in the Comprehensive Implementation Guide.

The new GARS Online platform is now available through four service plans:

• **Professional View/Single User Annual Service—**Includes one set of credentials and fully functional access. Annual Service: $390.00.

• **Professional View/Multiple User Annual Service—**Includes five sets of credentials and fully functional access for each concurrent (simultaneous) user. Annual Service: Starting at $420.00 per concurrent user.

• **Academic Professional View—**Access to GARS Online Professional View is provided by the Financial Accounting Foundation at no cost, in a joint initiative with the American Accounting Association, to faculty and students in accounting programs at post-secondary academic institutions.

• **Basic View—**Free access to all of the content available for Professional View, with limited navigation and features.

If they wish, current GARS subscribers may change to the online version. Call (800) 748-0659 for additional details.

***GASAC Meeting—February 2013***

Members of the Governmental Accounting Standards Advisory Council (GASAC) met on February 21 and 22 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.

GASAC members provided significant feedback to the GASB on the following projects: Financial Guarantees, Fair Value Measurement and Application, Conceptual Framework—Recognition and Measurement Approaches, GAAP Hierarchy, and Other Postemployment Benefits (OPEB). 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.

With respect to the Financial Guarantees project, GASAC members offered feedback on the major tentative decisions made during redeliberations of respondent comments to the proposed Statement, *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions,* which was approved for exposure in June 2012. Member feedback addressed issues including scope of the project, recognition and measurement provisions, recognition of intra-entity transactions, and disclosures.

In discussing the Fair Value Measurement and Application project, members of the GASAC provided feedback on the major tentative decisions made since the GASAC meeting in November 2012, including measurement application issues associated with lending assets, donated capital assets, life settlement contracts, natural resource assets, and capital assets held for sale.

GASAC members offered input on the major tentative decisions made related to the Conceptual Framework—Recognition and Measurement Approaches project since the last GASAC meeting, including those addressing separating the measurement and recognition aspects of the project, and modification of the approach to developing measurement concepts.

Regarding the GAAP Hierarchy project, members of the GASAC provided feedback on major tentative decisions made since the GASAC meeting in November 2012, including those regarding the Board’s approach to evaluating the individual questions and answers in the *Comprehensive Implementation Guide* prior to exposure and those concerning the level of influence of the GASB Concepts Statements on the evaluation of the appropriateness of nonauthoritative literature.

In discussing the OPEB project, GASAC members offered input on major tentative decisions reached since the GASAC meeting, including with respect to the proposed attribution method to be used for an OPEB measurement, the reliability of the liability measurement, and the calculation of the discount rate in measuring an OPEB liability.

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 electronic financial reporting, the reexamination of the financial reporting model, fiduciary responsibilities, interim financial reporting, and reexamination of accounting for leases as members’ top five priorities for the GASB’s technical agenda.

The annual discussion about the relative priorities of potential projects for the GASB’s technical plan is an important part of the agenda formation process. The GASAC members’ 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 GASB’s technical plan at its April 2013 meeting.

The next GASAC meeting is scheduled to be held on June 27 and 28 in New York.

***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 reports.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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