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

***No. 319 / October 2011***

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***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***November 8–10 (The November 10 meeting will take place at the LaGuardia Plaza Hotel, East Elmhurst, NY.)***

***December 13–15***

The GASB also is scheduled to meet via **teleconference** on **November 29** and **January 4.** The precise time, as well as the agenda, will be announced approximately two weeks before each meeting. Unless otherwise indicated, all meetings are held at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut.

In addition, the GASB will be meeting with the Governmental Accounting Standards Advisory Council on November 10 and 11 in East Elmhurst, New York (LaGuardia Plaza Hotel near LaGuardia Airport).

Finally, a meeting of the FAF’s Board of Trustees will be held on November 15 in Norwalk.

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.

***Michael Belsky Resigns from Governmental Accounting Standards Board***

The Financial Accounting Foundation (FAF) announced October 6 that Michael Belsky, one of six part-time members of the Governmental Accounting Standards Board (GASB), had tendered his resignation, effective October 7, to accept a position with an investment advisory firm active in the municipal bond business that also works directly with government agencies and institutions.

The FAF is responsible for the oversight, administration, and finances of the GASB and the Financial Accounting Standards Board, and for selecting their members. Although part-time GASB members are able to hold other employment positions while serving on the GASB, the organization’s code of conduct and ethical policies require that they avoid activities that may create the appearance of losing personal independence or objectivity or affect the confidence of the public in the integrity, independence, or objectivity of the GASB.

Because Mr. Belsky’s future work could potentially overlap with GASB initiatives, Mr. Belsky suggested his resignation from the GASB was appropriate, and the FAF concurred with his decision. Mr. Belsky said he was honored to serve as a GASB member.

John J. Brennan, chairman of the Board of Trustees of the FAF, praised Mr. Belsky’s contributions to the Board during his tenure and described as “understandable” his decision to step down from his role in light of his new affiliation. “We are grateful for his contributions to the GASB and wish him the best in his future endeavors,” Mr. Brennan added.

Robert Attmore, chairman of GASB, said, “Michael brought his rich experience and deep understanding of governmental finance to his service on the GASB. We will miss his valued contributions and informed perspectives as a user of governmental financial statements.”

The FAF has commenced a nationwide search to seek Mr. Belsky’s replacement on the Board.

***GASB Issues Exposure Draft Addressing Technical Corrections Necessary to Resolve Conflicting Guidance***

At the October meeting, the GASB approved an Exposure Draft of a proposed Statement, *Technical Corrections,* an amendment of GASB Statements No. 10 and No. 62. The proposal is designed to improve accounting and financial reporting for governmental financial reporting entities by resolving conflicting guidance that resulted from the issuance of two recent pronouncements: Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

Since the release of Statement 54, questions have arisen regarding differences between the provisions of Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* and Statement 54, regarding the reporting of risk financing activities. At the same time, since the release of Statement 62, questions have also come to light with respect to reporting differences between the provisions of Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* and Statement 62, regarding the reporting of certain operating lease transactions and the reporting of the acquisition of a loan or a group of loans.

***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, the Exposure Draft proposes to amend Statement 10 by removing paragraph 63. As a result, if the proposal becomes a final standard, governments would 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 6(a) and 6(b) of Statement 13 allows the lessor government to recognize operating lease payments on either 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 it 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.

The Exposure Draft proposes to amend Statement 62 by modifying the specific guidance on accounting for operating lease payments that vary from a straight-line basis and eliminate 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.*

The Exposure Draft proposes to amend 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 result in guidance that is consistent with the requirements in Statement 48.

***Proposed Effective Date***

The requirements of this proposed Statement would be effective for periods ending after June 15, 2012, with earlier application 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 December 16, 2011. Additional details on how to provide comments to the GASB on this proposal are available in the front of the Exposure Draft.

***Board Meeting Summary***

The GASB held a public meeting on October 3 and 5 at the LaGuardia Plaza Hotel, East Elmhurst, New York, to discuss issues associated with its projects on financial projections related to economic condition reporting, technical corrections, government combinations, financial guarantees, and measurement and application of fair value.

***Economic Condition Reporting—Financial Projections***

The Board discussed the preballot draft of the Preliminary Views, *Economic Condition Reporting: Financial Projections,* and offered suggestions to clarify and improve various elements of the document. The project is scheduled for additional discussion at the November meeting.

***Technical Corrections***

In its project addressing technical corrections necessary to resolve conflicting guidance, the Board reviewed the ballot draft and unanimously approved the issuance of the Exposure Draft, *Technical Corrections,* an amendment of GASB Statements No. 10 and No. 62. (Please see the related story on page 1.)

***Government Combinations***

In its government combinations project, the Board considered topics related to measurement and financial reporting for combination arrangements in which a government acquires another organization in exchange for financial consideration.

The Board tentatively agreed that the proposed standard need not address guidance for determining the acquiring government because in a government acquisition arrangement, the acquirer is likely to be the entity that exchanges its resources to acquire another organization. The Board discussed and tentatively agreed that the acquisition date—the date on which a government acquires assets and assumes liabilities—should be specified for government acquisition arrangements for accounting measurement and financial reporting purposes.

In considering a requirement for identification of the assets acquired and liabilities assumed in acquisition arrangements, the Board tentatively agreed that in order to qualify for recognition as a government acquisition, the assets acquired and liabilities assumed should meet the definitions of assets and liabilities in Concepts Statement No. 4, *Elements of Financial Statements* (that is, an asset is a resource with present service capacity that the government presently controls, and a liability is a present obligation to sacrifice resources that the government has little or no discretion to avoid), and the proposed guidance should explicitly require the acquiring government to identify the assets acquired and the liabilities assumed.

The Board tentatively agreed that identification of deferred outflows of resources and deferred inflows of resources of acquired governments should be required. In discussing reporting differences between deferred items such as hedging derivative instruments and service concession arrangements, the Board noted that certain deferred items might require modification.

Next, in considering the measurement of assets acquired and liabilities assumed by a government’s acquisition of another organization, the Board tentatively agreed that measurements of identified assets acquired and liabilities assumed should be at their fair value, to the extent appropriate. However, explicit guidance also would need to be provided for assets and liabilities that require the application of different measurement methods as described in existing standards.

The Board tentatively agreed that guidance on financial consideration is necessary to establish the types of resources and items that should be included when establishing a purchase price for accounting and financial reporting purposes and that financial consideration transferred could be measured as the sum of the acquisition-date fair values of the assets transferred and liabilities incurred to the former owners of the acquired organization.

With respect to the recognition and measurement of differences between the purchase price and net assets acquired in a government acquisition arrangement, the Board tentatively agreed that the purchase price should be allocated to the values assigned to the net assets acquired and to the net carrying amounts of the deferred outflows of resources and deferred inflows of resources.

The Board tentatively agreed that when the purchase price exceeds the net assets acquired, the acquiring government should recognize the difference as a deferred outflow of resources and that difference should be attributed to future periods in a systematic and rational manner. For circumstances in which the purchase price is less than the net assets acquired, the Board tentatively agreed that the acquiring government should recognize the difference as an inflow of resources in the period of acquisition.

Finally, the Board tentatively agreed that acquisition-related costs should generally be recognized as an outflow of resources in the periods in which the costs are incurred and the services are received.

***Financial Guarantees***

In its project addressing financial guarantees, the Board discussed issues regarding the recognition and measurement of financial guarantees that are nonexchange transactions.

In discussing incorporation of the recognition requirements of providers in Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* for recognition of nonexchange-based guarantees extended by a government, the Board tentatively agreed to consider these requirements after discussion of other recognition and measurement issues.

Considering whether events should be specified that require a guarantor to recognize and measure a liability resulting from extending a nonexchange-based financial guarantee, rather than requiring recognition and measurement as a result of certain events, the Board tentatively agreed to examine principles-based recognition and measurement requirements for guarantors that extend nonexchange-based financial guarantees.

Finally, addressing the effect of recoveries such as intercept programs on the measurement of a liability by a guarantor of a nonexchange-based financial guarantee, the Board tentatively agreed that intercept programs generally have characteristics that make them distinct from financial guarantees, although the Board noted that there could be intercept arrangements that are similar to a financial guarantee.

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

In its project addressing fair value measurement and application, the Board began deliberations by reviewing background material on fair value definitions in current GASB literature and the literature of other accounting standards setters.

The Board reaffirmed its tentative decision reached during deliberations of the Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches,* that a fair value definition should not be limited to only financial instruments but could potentially include other assets and liabilities. In addition, the Board tentatively agreed that discussions of a definition of fair value should begin with *FASB Accounting Standards Codification*® Topic 820*, Fair Value Measurement.*

***GASB Holds Public Hearings and User Forums on Pension Exposure Drafts, and Public Hearings on Concepts Preliminary Views***

In October, the GASB held a series of public hearings and user forums on issues discussed in the Exposure Drafts relating to its pension accounting and financial reporting project and its Preliminary Views on recognition and measurement approaches under its conceptual framework.

The GASB holds public hearings and user forums to allow the Board an opportunity to better understand constituent input through the question and answer sessions with respondents in the public hearing and listening to the rationale behind user positions provided in response to questions asked about the Board’s proposals.

***Pension Public Hearings and User Forums***

The Board held three public hearings and three user forums on the Exposure Drafts, *Accounting and Financial Reporting for Pensions,* and *Financial Reporting for Pension Plans.* The first public hearing was held on October 4 in New York City, New York, the second was held on October 13 and 14 in San Francisco, California, and the third was held on October 20 and 21 in Chicago, Illinois. The user forums were held on October 4, 14, and 21 in those same locations.

The Board elected to hold three hearings and forums to accommodate the high level of interest in testifying on the proposals and to allow interested parties to provide their comments directly to Board members.

Over the course of the hearings, the GASB received testimony from 33 individuals and organizations, including actuaries, consultants, preparer organizations, public employee retirement systems, and financial statement users. The user forums drew a total of 19 participants, including representatives of citizen groups, research organizations, legislative/oversight groups, bond rating agencies, academics, and financial analysts. The participants expressed a wide range of opinions from those that supported the Board’s proposals on pension accounting and financial reporting by employers and the pension plans that administer the related benefits to those that disagreed in varying degrees with those views. Among those testifiers in disagreement with the Board’s preliminary views, some believe that the Board should maintain the current standards set forth in Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* with minimal or no modification, while others believe that additional changes—other than those provided for in the Preliminary Views—should be made to the pension accounting standards.

The GASB is committed to reviewing the effectiveness of its standards to determine whether they continue to support accountability and result in the reporting by state and local governments of decision-useful information. The Board received more than 300 written responses to the Exposure Drafts. The input received during the comment period and through the three public hearings and user forums in response to the Exposure Drafts will provide valuable input to the Board as it continues its deliberations on pension accounting and financial reporting issues.

***Concepts Public Hearings***

The Board also held three public hearings on the Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches.* The first public hearing was held on October 4 in East Elmhurst, New York, the second was held on October 14 in San Francisco, California, and the third was held on October 21 in Chicago, Illinois.

Though participants agreed it is important for the GASB to approach recognition and measurement from a conceptual standpoint, they expressed a wide range of opinions on the Board’s proposals.

This project is ultimately expected to yield a Concepts Statement. Concepts Statements are intended to provide a framework of interrelated objectives and fundamental concepts that can be used as a basis for establishing consistent financial reporting standards that can be applied to solve numerous financial accounting and reporting issues. The input received during the comment period and through these public hearings will provide valuable information to the Board as it continues its deliberations regarding recognition and measurement approaches under its conceptual framework.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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