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

***No. 330 / September 2012***

*(The GASB Report No. 292)*

***GASB Requests Input on Emerging Issues***

While the GASB closely monitors practice for developing issues in governmental accounting and financial reporting, those who prepare, audit, and use governmental financial statements are best positioned to identify potential practice issues as they arise. As a result, the Board continually seeks input from its constituents to help identify emerging issues that may require its attention. Though there is no room on the GASB’s agenda at present for additional major projects, the Board is committed to addressing important emerging issues faced by state and local governments as they arise.

**How the GASB Becomes Aware of Issues**

The GASB has several processes in place that assist in identifying emerging issues. These include the activities of its advisory council, the Governmental Accounting Standards Advisory Council (GASAC), which meets three times a year to, among other things, provide input on matters that the GASAC members believe the GASB should research. Constituents also indirectly help the GASB identify potential issues when they contact its staff with questions about its standards. The GASB tracks the technical inquiries that it receives, and if a number of questions about a particular topic are posed, the Board, with input from the GASAC, considers whether there may be an issue that requires further consideration.

In addition to these procedures, the GASB encourages constituents to notify its staff if issues come to their attention, including raising those issues at presentations made by GASB representatives at conferences around the country.

**How to Notify the GASB of Potential Accounting Issues**

If you are aware of new issues for which accounting and financial reporting guidance may be needed, or any issues with the interpretation or implementation of GASB standards or with the financial reporting information that results from application of existing guidance, please let the GASB know. Potential concerns can be sent via email to the GASB’s director of research and technical activities at director@gasb.org. Alternatively, a letter can be sent to:

Director of Research and Technical Activities

GASB

401 Merritt 7

PO Box 5116

Norwalk, CT 06856-5116

When submitting the description of an issue, please include your name and contact information so that the GASB’s technical staff can follow up with you. Matters brought to the GASB’s attention will be explored by the staff and, based on the results of that research, may be considered either for addition as a project on the GASB’s technical agenda, along with competing projects, or for inclusion in a question and answer in the GASB Comprehensive Implementation Guide.

***Board Meeting Summary***

The Board held a public meeting on August 22–24 in Norwalk, Connecticut, to discuss issues associated with a number of projects, including those on recognition and measurement approaches under the conceptual framework, government combinations, measurement and application of fair value, financial projections as they relate to economic condition reporting, other postemployment benefits, and the hierarchy of generally accepted accounting principles.

Details of the deliberations on the technical plan for the final third of 2012, which was also discussed, were described in the August issue of *The GASB Report*. The Board also met via teleconference on September 10 to discuss issues related to its project on government combinations.

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

In its conceptual framework project, the Board continued the evaluation of feedback received pursuant to the proposed measurement concepts in the Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches.*

The Board tentatively agreed that the approach to measurement concepts should continue to reflect the following major features:

1. The objective of measurement concepts is to establish a framework for when each of the two primary measurement approaches (initial amounts and remeasured amounts) should be used.

2. A single measurement approach need not be applied to all assets and liabilities.

3. The overriding criterion in evaluating the measurement approaches is which one best promotes achievement of the applicable objectives of financial reporting, with consideration of the qualitative characteristics of information in financial reporting.

After consideration of respondent feedback on various aspects of the proposals, the Board also tentatively affirmed its proposed preliminary views that (1) initial amounts are more appropriate for assets that are used directly in providing services, (2) remeasured amounts are more appropriate for assets that will be converted to cash (for example, financial assets), and (3) remeasured amounts are more appropriate for variable-payment liabilities, such as compensated absences or pollution remediation obligations, without modification.

***Government Combinations***

Addressing its project on government combinations, the Board reviewed a summary of feedback received from respondents to the Exposure Draft, *Government Combinations and Disposals of Government Operations.* The Board discussed several matters raised by respondents to the Exposure Draft with regard to the proposed Statement’s scope and applicability, types of government combinations, and the accounting provisions for government mergers.

Considering whether the scope of the proposed Statement should be expanded to include accounting and financial reporting guidance for acquisitions of other entities when legal separation is maintained, the Board tentatively decided to carry forward the proposed Statement’s scope without modification. The Board agreed that the accounting and financial reporting issues related to acquisitions of entities that retain legal separation should be addressed as a separate potential project in the future.

The Board then discussed respondents’ comments about the proposed Statement’s service continuation provision. Certain respondents sought clarification about the purpose and application of this provision. The Board reaffirmed its belief that the condition of service continuation should be utilized for determinations that transactions are not acquisitions or contributions of assets. To address the issues raised by these respondents, the Board tentatively approved further clarifications of the purpose and application of the proposed Statement’s service continuation provision.

Some respondents sought clarification about the meaning of significant consideration for purposes of distinguishing between types of government combinations. Again, to address the issues raised by due process participants, the Board tentatively agreed that the consideration provided for government acquisitions need only be significant in relation to the assets and liabilities acquired. Additionally, the Board discussed and tentatively agreed that refinancing the liabilities of an acquired entity should not constitute consideration for purposes of qualifying as a government acquisition.

In addition, the Board considered respondents’ comments regarding the merger date for continuing governments. The Board tentatively agreed that the merger date provisions for continuing government mergers should be carried forward without modification. The Board then considered comments about the proposed Statement’s option to conform accounting principles for government mergers and tentatively agreed to carry forward the proposed Statement’s provisions.

The Board also considered respondents’ comments regarding adjustments of capital assets for impairment for government mergers involving a continuing government and tentatively agreed that capital asset impairment should be considered as of the merger date for capital assets of a dissolving government.

Considering whether further guidance should be included in the proposed Statement for reporting government combinations in governmental fund financial statements, the Board tentatively agreed that the proposed Statement’s guidance should be carried forward without further modification.

Next, the Board discussed several matters raised by respondents that related to the proposed Statement’s provisions for disposals of operations. The Board first considered whether certain information in the Basis for Conclusions should be included in the standard to further clarify reporting requirements and tentatively decided on a modification to clarify how costs associated with the disposal of government operations should be reported.

In considering whether the proposed Statement addressed the relevant provisions for disposals of APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* the Board tentatively agreed that the proposed Statement does include relevant provisions from Opinion 30 for disposals. Therefore, no related changes to the standards section were needed.

The Board then discussed the proposed note disclosure requirements for disposals of government operations and, based on constituent feedback, tentatively decided to modify the proposed Statement’s disclosure requirements to include a description of the operations transferred or sold.

In addition, the Board discussed and tentatively agreed that the proposed Statement should include reporting guidance for disposals of operations for governmental fund financial statements and tentatively approved language to be added for this purpose.

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

In its project addressing fair value measurement and application, the Board discussed specific application issues. The project staff conducted a series of interviews with the Fair Value Measurement and Application Task Force and other stakeholders from a variety of backgrounds. The results of those interviews led to a discussion of potentially modifying the tentative definition of an investment asset to address bond reserve assets that provide resources set aside for the benefit of creditors. These bond reserve assets, the Board tentatively decided, meet the “based solely on its ability to generate cash” criterion and thus are already sufficiently covered by the working definition of an investment asset.

The Board deliberated a description of an investment’s characteristics that focused on the asset’s service capacity, whether the asset is held primarily for income or profit, the asset’s ability to generate cash, and management’s intent for holding the asset. The Board focused on the use of the word “procure” in the description of characteristics. The Board tentatively agreed to propose that procuring a service is not the same as providing a service and that the reference to “procure services for the citizenry” should be proposed in a footnote to clarify that “sold to generate cash” encompasses circumstances in which an investment is used to directly procure services in a noncash transaction instead of being sold to generate cash, with the cash proceeds being used to procure services. The Board also tentatively agreed to propose that the characteristics not refer to the intent of a government’s management. That reference should be limited to an indication, apart from the characteristics, that different governments holding similar assets may arrive at different determinations based on the intended purpose of an asset.

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

In its project on financial projections as they relate to economic condition reporting, the Board continued to discuss the summary of comments received. At this meeting, staff analysis of those comments, and staff recommendations focused on Chapter 4 and Questions 2–5 of the Preliminary Views, Economic Condition Reporting: Financial Projections. The discussion centered on the (1) basis and methodology for projections, (2) basis of accounting for projected information, (3) identification, development, and disclosure of assumptions, and (4) projection period. The Board also agreed to consider the broad issues associated with the future direction of the project at the January 2013 meeting after initial redeliberations are concluded and additional constituent outreach is conducted.

**Basis and Methodology for Projections**

The Board tentatively reaffirmed its preliminary view that financial projections should be (1) based on current policy, (2) informed by historical information, and (3) adjusted for known events and conditions that affect the projection periods. The Board also tentatively reaffirmed its preliminary view that current policy includes policy changes that have been formally adopted but will not be effective until future periods.

The Board tentatively agreed to clarify that:

1. In the absence of current policies effective through the entire projection period, the assumptions used for making financial projections may be based on historical trend information adjusted for known future events or conditions.

2. The assumptions and financial projections would include current policy and known events and conditions that existed as of the auditor’s report date, rather than as of the end of the fiscal year.

3. Any law pertaining to the preparation of a budget, including a balanced budget requirement, is a prediction or forecast of future actions and should therefore not be included in “current policy” as defined in the Preliminary Views, which are focused on financial projections.

4. Authorized capital expenditures would be considered current policy. The Board recognized that, in many cases, capital expenditures are not “authorized” until the funding has been authorized (bond proceeds) or awarded (grant proceeds). However, the Board tentatively agreed that in those instances in which capital expenditures have been authorized before securing authorized or awarded funding, the notes to this information should explain the gap between the projections of cash outflows and cash inflows.

**Basis of Accounting for Projected Information**

The Board tentatively reaffirmed its preliminary views that inflows and outflows should be projected on a cash basis of accounting and that financial obligations should be projected on an accrual basis of accounting. The Board also reached a tentative agreement to include a requirement to disclose the basis of accounting being used for the financial projections.

**Identification, Development, and Disclosure of Assumptions**

The Board tentatively reaffirmed its preliminary view that the identification and development of assumptions for making financial projections should be guided by a principles-based approach that requires assumptions to be based on relevant historical information, as well as events and conditions that have occurred and that affect the projection periods. The Board also tentatively reaffirmed its preliminary view that assumptions should be (1) consistent with each other (where appropriate) and (2) comprehensive by considering significant trends, events, and conditions. Finally, the Board tentatively reaffirmed its preliminary view that disclosure of assumptions should be required.

**Projection Period**

The Board tentatively agreed that annual financial projections should be made for five individual years beyond the reporting period for the purpose of external reporting and to require disclosure of the basis of the assumptions used.

***Other Postemployment Benefits***

In addressing its project on other postemployment benefits, the Board discussed the differences between pensions and other postemployment benefits (OPEB) not provided through qualifying trusts, and pensions and OPEB provided through qualifying trusts, as well as the various approaches of accounting for pensions and OPEB not provided through qualifying trusts used by standards setters. The Board also considered the appropriateness of accounting for pensions and OPEB not provided through qualifying trusts using an approach similar to that in Statement No. 68, Accounting and Financial Reporting for Pensions.

The Board tentatively decided that an employer’s obligation for pensions and OPEB provided outside of a trust or equivalent arrangement in defined contribution arrangements and defined benefit single-employer and agent-employer arrangements meets the definition of a liability in Concepts Statement No. 4, *Elements of Financial Statements.*

***GAAP Hierarchy***

The Board reviewed and discussed the various characteristics of accounting guidance and tentatively agreed to propose that for a source of guidance to be categorized in the highest level of the hierarchy of generally accepted accounting principles (GAAP hierarchy), the source should be (1) formally approved by the Board for the purpose of creating, amending, superseding, interpreting, clarifying, explaining, or elaborating on standards and (2) exposed for a period of public comment.

The Board also discussed the structure of the existing GAAP hierarchy, as presented in Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* and explored potential revisions to it. The Board tentatively agreed to propose to reduce the GAAP hierarchy to two levels: authoritative and nonauthoritative. While the Board tentatively agreed to propose the requirements for a source of accounting guidance to be categorized in the highest level of the GAAP hierarchy, the Board will explore the merits of classifying nonauthoritative sources of accounting guidance in order of preference at a later date.

After tentatively agreeing to propose a modified GAAP hierarchy, the Board discussed the characteristics of the following sources of guidance and where the guidance should be categorized in the GAAP hierarchy: GASB Concepts Statements, GASB Technical Bulletins, GASB Implementation Guides, AICPA Industry Audit and Accounting Guides, AICPA Statements of Position, AICPA Practice Bulletins, and the *FASB Accounting Standards Codification*® (FASB ASC).

The Board considered GASB Concepts Statements and their placement within the tentatively proposed GAAP hierarchy. Even though GASB Concepts Statements meet the tentative requirements to be considered the highest level of GAAP, the Board tentatively agreed to propose that GASB Concepts Statements remain nonauthoritative to avoid confusion when applying guidance.

The Board also considered the existing due process for GASB Technical Bulletins as well as the intended purpose of the Technical Bulletins. The Board tentatively agreed to propose that the due process for GASB Technical Bulletins be amended to include formal approval by the Board, rather than Board clearance, and that GASB Technical Bulletins be categorized in the highest level of the GAAP hierarchy.

After discussion of the placement of GASB Implementation Guides, the Board tentatively agreed to propose that the due process be amended to include public exposure and formal approval by the Board pending discussions on the approach needed to operationalize this proposal at a later date.

The Board also considered the placement of the FASB ASC within the proposed GAAP hierarchy, as the FASB ASC did not exist at the time of issuance of GASB Statement 55. The Board tentatively agreed to propose that the FASB ASC be categorized as nonauthoritative “other accounting literature” in the tentative GAAP hierarchy.

The Board discussed the existing placeholder in the existing GAAP hierarchy in Statement 55 for consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities. After determining that the standards-setting process has sufficiently evolved since the inclusion of the placeholder language, the Board tentatively agreed to propose that the GAAP hierarchy exclude any reference to consensus positions of that group of accountants organized by the GASB.

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***November 28–30***

The GASB also is scheduled to meet via **teleconference** on **October 19** and **December 17.** 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 task force meeting on the other postemployment benefits project on October 5 in Flushing, New York (Sheraton LaGuardia East Hotel).

Also, the FAF Board of Trustees will meet on November 13 in Norwalk.

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

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 Edition of An Analyst’s Guide Now Available***

The newly updated, revised, and expanded edition of *An Analyst’s Guide to Government Financial Statements* is now available. Unlike the other editions in the GASB’s user guide series, *An Analyst’s Guide to Government Financial Statements* is geared toward more experienced and frequent users of governmental financial statements. In addition to introducing and describing the information that can be found in governmental reports, the new edition updates and combines the current guide with the GASB’s guide to notes and supporting information to create—for the first time—a comprehensive guide to the complete comprehensive annual financial report.

In addition to introductory and background material, the new edition of the guide features separate chapters on:

• The government-wide statement of net position

• The government-wide statement of activities

• The governmental funds statements

• The proprietary and fiduciary funds statements

• Related note disclosures and supporting information.

In addition, the newly expanded 2012 edition explores how basic analytical techniques may be applied to assess such issues as economic condition, financial position, liquidity, solvency, fiscal capacity, and risk exposure.

***New Editions of the What You Should Know Guides Also Available***

With new editions of the original user guides now published and a brand new guide on business-type activities on the way later this year, the process of fully updating and expanding the user guide series is nearly complete. Introduced a decade ago, this series introduces state and local government financial reports to a broad, non-accountant audience using a minimum of accounting jargon.

When governments began issuing new financial statements following the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments,* the GASB took the initiative to assist users in understanding the information contained in the revamped financial reports by publishing the original editions in its user guide series. These guides quickly became essential reading for financial analysts and other users. Now, the GASB has revamped, updated, and expanded the series, which in addition to An Analyst’s Guide to Government Financial Statements, includes the following titles:

• *What You Should Know about Your Local Government’s Finances*

• *What You Should Know about Your School District’s Finances*

• *What You Should Know about the Finances of Your Government’s Business-Type Activities* (available later this year).

The three *What You Should Know* guides offer users a comprehensive, easily digestible introduction to the annual reports of local governments, school districts, and—new for 2012—business-type activities such as public utilities, hospitals, and colleges. The new editions of these guides cover more note disclosures and supporting information and include the major new pronouncements issued since the publication of the original guides. Specifically, the guides include the following:

• Annotated examples of a host of financial statements, notes, and schedules

• A storyline designed to help the reader understand the concepts

• An introduction to basic financial ratios used to analyze government finances

• Helpful boxes and sidebars further exploring issues raised in the text

• An overview of governmental accounting and financial reporting

• An extensive glossary of terms.

The new editions in the user guide series may be ordered through the Store section of the GASB website, [www.gasb.org](http://www.gasb.org).

***New 2012–2013 GASB Comprehensive Implementation Guide Available Soon***

The 2012–2013 edition of the GASB’s Comprehensive Implementation Guide provides access to answers to more than 1,900 questions affecting the governmental sector. This edition, which is scheduled to be ready for delivery in mid-October, will include new information on:

• The effects on questions and answers (in prior editions of the guide) of Statements No. 60, A*ccounting and Financial Reporting for Service Concession Arrangements,* No. 61, *The Financial Reporting Entity: Omnibus,* No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* and No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

• The effects of Statements No. 65, *Items Previously Reported as Assets and Liabilities,* and No. 66, *Technical Corrections—2012,* which are effective for periods beginning after December 15, 2012. Those effects have been included in separate appendices for those governments that implement the provisions earlier than required.

• New questions and answers on topics including capitalization of costs related to service fee arrangements involving the use of cloud computing, the classification of assigned fund balance when a plan to reduce fund balance is adopted, reporting restricted fund balance, disclosures of fund balance classification details, and several other fund balance–related issues.

Because, as of the guide date, some governments have not yet implemented the provisions of Statements 61 and 62, appendices have been included to present affected questions and answers without the effects of those provisions.

***The Annual Bound Editions Series***

The *Comprehensive Implementation Guide* is a cornerstone in the GASB’s Annual Bound Editions series, which contains the most current information available on changes to governmental accounting implementation guidance. The series—available for delivery in the coming weeks—consists of the *Codification, Original Pronouncements,* and *Comprehensive Implementation Guide*. Together, these volumes equip preparers, auditors, and financial statement analysts with the resources needed to stay current on governmental GAAP.

Additional information is available on each of these three publications, which are available individually or as a discounted set, in the Store section of the GASB website, www.gasb.org, or by calling (800) 748-0659.

***The GASB Report***

The GASB welcomes feedback on The GASB Report.

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