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June 15, 2012

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board (GASB)
Project 3-23
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB or the Board) on the exposure draft (ED) entitled *Government Combinations and Disposals of Government Operations*. The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has reviewed the exposure draft and agrees with the positions expressed by the Board for the reporting of government combinations and disposals of operations. The issuance of this guidance is timely, in that across the country, governments at all levels have been struggling financially and have been compelled to sometimes consider alternative arrangements to continue necessary services to the public. These alternative arrangements sometimes involve the kinds of transactions covered by this statement. Likewise, we also support the concept that certain transactions are excluded from this ED, such as a transaction whereby a higher level of government assumes a specific liability on behalf of a lower level of government to ease a budgetary problem. We reiterate our support for the Board's positions and also raise some questions for the Board to consider while deliberating and preparing the final pronouncement.

In our review of Appendix B, the Basis for Conclusions, we found that the rationale used by the Board to limit the applicability of this ED is appropriate. Furthermore, we agree with the Board's position that the accounting treatments proposed in this ED are applicable to a movement of a government (or non- government) operation as opposed to a transfer of assets or an assumption of liabilities by a higher level of government. There exists ample guidance to account for arrangements that involve the purchase or donation of assets, or the assumption of liabilities by a government. Thus the ED's proposal of a principle-based approach to identifying, classifying and accounting for government combinations based on a service continuation requirement is appropriate. Further, the method proposed by the Board for classifying



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transactions as a merger, an acquisition or transfer of operations also appears to be sound and reasonable. We agree that the basic accounting treatments should vary and that it should vary depending on whether the transaction is “merger” or an acquisition for significant consideration.

We do have questions that the Board may wish to consider. In paragraph four of the ED, the applicability of this document is presented as pertaining to transactions involving an “operation”. An “operation” is further defined as an integrated set of activities with associate assets and liabilities. Following this is paragraph 12, which defines a transfer of operations. Does the language used in paragraph four imply that the transfer must involve all of the assets and liabilities associated with the operation for this treatment to be applicable? For example, in some instances the transferee entity may be required to retain certain liabilities associated with a function, either by law or agreement. The Board might therefore allow for some exceptions if there are legal obligations or other circumstances that prevent a full transfer of assets or liabilities associated with an operation. For example, some of this situation is occurring in the State of California with regard to the forced dissolution of 400 redevelopment authorities in cities and counties where some of the liabilities are to be retained and paid by a successor agency (not a legally separate entity), which ostensibly is serving as a debtor in possession. The other liabilities are to be either transferred to a city or county. In those transfers, extraordinary gains and losses will be declared due to the nature of the dissolution. We suggest that perhaps this situation be used as a fact pattern in an example in an implementation guide or appendix. The FMSB would be honored to work with GASB staff on this example.

Furthermore, paragraph 33 of the exposure draft proposes that acquiring governments should measure liabilities (and assets, if any) related to acquired employment benefit arrangements, such as compensated absences, pensions, other postemployment benefits, or termination benefits using applicable accounting and financial reporting requirements to the extent such benefits are not terminated. Per paragraph 91 of the proposal, indeed we believe the Board will have to reconsider this due to the pending provisions of what will be GASB Statements 67 and 68. Governments will be able to measure the transfers especially in a cost sharing or agent multiple employer situation under the pending provisions. However, deriving the information may be problematic given the ability to roll-forward up to two year old data under what will be Statements 67 and 68 and that data being based upon source documentation that may be even older. Typically, post-employment benefit transfers are the most difficult elements to deal with in any combination. They may also be assumed by a third party to the combination – typically a larger government – to eliminate (or add to) some of the complexity. As the new standards effectively build a liability from the individual, we suggest that the individuals involved in the combination have liabilities attached to them and that the latest available data be allowable, as long as it is in compliance with the new standards, rather than performing an actuarial valuation just on the combination. OPEB information though may be more of a challenge as the updating process to those standards has not started as of the date of this letter. Finally, we believe that unless compensated absences and termination benefits accounting and financial reporting are reexamined, the accounting and financial reporting aspects for those processes will be reasonable as in both cases, the transactional accruals largely are built from the individual employee.

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We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter of comments. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, AGA's staff liaison for the FMSB, at ssossei@agacgfm.org or at 518-522-9968.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric S. Berman', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA, Chair
AGA Financial Management Standards Board

cc: Richard O. Bunce, Jr., CGFM, CPA
AGA National President

**Association of Government Accountants
Financial Management Standards Board**

July 2011 – June 2012

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