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June 15, 2012

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Project No. 3-17 — Exposure Draft of Proposed GASB Statement, *Government Combinations and Disposals of Government Operations*

Dear Mr. Bean:

Deloitte & Touche LLP is pleased to comment on the GASB's exposure draft (ED) *Government Combinations and Disposals of Government Operations*.

We support the Board's efforts to improve financial reporting related to government combinations and disposals of government operations. While we generally agree with many of the ED's principles, we have outlined in the appendix to this letter several comments and recommendations for the Board's consideration.

Deloitte & Touche LLP appreciates the opportunity to comment on the ED. If you have any questions concerning our comments, please contact Stuart Moss at (203) 761-3042.

Yours truly,

Deloitte & Touche LLP

cc: Mike Fritz
Robert Uhl

Appendix

Considering Service Continuation Provisions When Identifying Government Combinations

Paragraph 9 of the ED states that to “be considered a government combination, an arrangement should result in the continuation of the services provided by the previously separate entities or their operations after the government combination has occurred” (i.e., “the new or continuing government has an obligation or responsibility to continue to provide the services that were previously provided by the formerly separate governments, organizations, or operations”).

It is unclear how entities would apply this service continuation provision to arrangements that specify that only certain functions and services of the separate entities or operations will continue after the government combination. It is also unclear how the provision would apply to an acquiring government that intends to repurpose the asset acquired and provide new services after the combination. We recommend that to mitigate diversity in practice, the Board provide implementation guidance that addresses these types of situations.

Maintaining Legal Separation

Paragraphs 10 and 11 of the ED specify that government combinations occur when the merged or acquired entities cease to exist as separate legal entities and are combined or absorbed into one or more continuing or new governments.

In government combinations, it is not unusual for entities to maintain legal separation in order to manage risk after the merger or acquisition. Such combinations are generally substantively similar to other mergers or acquisitions in which legal separation ceases. For example, a government hospital may acquire a physician group that intends to continue to operate as a separate legal entity to manage risk after the government combination. We are concerned that paragraphs 10 and 11 exclude such arrangements from the ED’s scope. If so, we recommend that the Board reconsider whether acquired or merged entities that retain legal separation should be subject to different treatment for accounting and financial reporting purposes.

Accounting When Consideration Provided Is Less Than the Net Position Acquired

Paragraphs 40 and 41 of the ED propose two accounting approaches for “circumstances in which the consideration provided is less than the net position acquired.” Under one approach, the “acquiring government should eliminate the excess net position by reducing the acquisition values assigned to the noncurrent assets acquired (except for long-term investments reported at fair value).” Under the other approach, the “acquiring government should recognize a contribution for circumstances in which the seller intends to accept a lower price in order to provide economic benefit to the acquiring government without directly receiving equal value in exchange.” Paragraph 41 further indicates that the “provisions of an arrangement should indicate whether economic aid is intended.” Such guidance, however, might result in diversity in practice in situations in which the intent to provide economic aid is not clear. We suggest that the Board provide examples that show how to apply these provisions.

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In addition, the approaches are inconsistent with the FASB's guidance on not-for-profit-entities in ASC 958-805-25-14c.¹ ASC 958 requires that inherent contribution received be recognized when consideration provided in an acquisition is less than the net position acquired. Although ASC 958 addresses combinations by not-for-profit entities, we believe that because the economic reasons for government and not-for-profit entity combinations can be similar, and because combinations by not-for-profit entities and governments can be mergers between two legal entities, the guidance in ASC 958 can be applied by analogy to government combinations. It is unclear whether the Board intended the accounting for government combinations and not-for-profit entities to be different. We recommend that, at a minimum, the Board clarify in the final standard's Basis for Conclusions why a difference in accounting is warranted.

Different Disclosure Requirements

Paragraphs 54–56 of the ED outline the disclosure requirements for government combinations, which differ depending on whether the transaction is (1) a merger and transfer of operations or (2) an acquisition. Although the Board noted its rationale for the differences in the ED's Basis for Conclusions, it remains unclear to us why the Board would require different levels of disclosure for different types of combinations. We recommend that the Board simplify the requirements by aligning the disclosure requirements for all types of combinations.

Other Comments

Noncontrolling Interests

We recommend that the Board specify how noncontrolling interests would be accounted for in a government acquisition. Although noncontrolling interests would be rare in government combinations, we recommend that the Board provide implementation guidance on how to apply the provisions of the ED when a government acquisition involves acquiring less than 100 percent of a separate legal entity.

Contingent Considerations

Paragraph 38 of the ED notes that a "government acquisition may include the potential transfer of cash or other assets that is contingent upon specified events in the future" and that such contingent amount should only be recognized as a component of the consideration to the extent that it is probable and reasonably estimable. Although in paragraph 102 the Board outlines the conditions under which a contingent amount can be recognized, the accounting for such transactions differs from that for not-for-profit combinations. According to ASC 958-805-30-13, not-for-profit entities initially measure contingent consideration related to a business combination at the acquisition-date fair value. We believe that the objectives of government combinations are often similar to those of not-for-profit entities, and we therefore question whether the Board intended that the accounting for government combinations differ from that for not-for-profit entities. We recommend that, at a minimum, the Board clarify in the final standard's Basis for Conclusions why such a difference is warranted.

¹ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's ["Titles of Topics and Subtopics in the FASB Accounting Standards Codification."](#)

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Reporting Government Acquisitions Provisionally

Paragraph 109 of the ED states that “if the initial measurement of specific assets or liabilities is not finalized by the end of the reporting period in which the government acquisition occurs, the acquiring government recognize in its financial statements estimated amounts for those assets or liabilities and prospectively adjust those amounts recognized to reflect new information as it is obtained.” For nongovernmental entities, the measurement period is limited to one year after the acquisition date (including acquisition by not-for-profit entities). It is unclear whether the Board intends to similarly limit the measurement period.

Transaction Costs

Paragraph 42 of the ED describes how to account for acquisition costs related to government acquisitions. However, the ED is silent about how to account for transaction costs related to a merger or a transfer of operations. We recommend that the Board include such guidance in the final standard.

Joint Venture/Equity Method Accounting

The Board may wish to consider adding a project to its agenda to address equity method investments and joint venture arrangements. The current absence of guidance on such transactions has resulted in diversity in practice.