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Statement No. 69 of the
Governmental Accounting
Standards Board

Government Combinations and
Disposals of Government Operations



GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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Summary

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, *Business Combinations*. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This

Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 3 discusses the applicability of this Statement.

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January 2013



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of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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January 2013

CONTENTS

	Paragraph Numbers
Introduction	1–2
Standards of Governmental Accounting and Financial Reporting ...	3–58
Scope and Applicability of This Statement	3–8
Identifying Government Combinations—Service Continuation	9
Types of Government Combinations	10–12
Government Mergers.....	13–28
New Governments	13–19
Recognition	14–15
Measurement.....	16–18
Impairment.....	19
Continuing Governments	20–27
Recognition	21–22
Measurement.....	23–25
Impairment.....	26
Eliminations.....	27
Reporting Government Mergers in Governmental Fund Financial Statements.....	28
Government Acquisitions.....	29–45
Recognition and Measurement of Government Acquisitions	29–32
Exceptions to the Use of Acquisition Value	33–36
Consideration	37–41
Acquisition Costs	42
Intra-Entity Government Acquisitions	43
Reporting Government Acquisitions on a Provisional Basis	44

	Paragraph Numbers
Reporting Government Acquisitions in Governmental Fund Financial Statements	45
Transfers of Operations	46–50
Reporting Transfers of Operations in Governmental Fund Financial Statements	50
Disposals of Government Operations	51–54
Reporting Disposals of Government Operations in Governmental Fund Financial Statements	54
Notes to the Financial Statements	55–58
All Government Combinations	55
Government Mergers and Transfers of Operations	56
Government Acquisitions	57
Disposals of Government Operations	58
Effective Date and Transition	59
Appendix A: Background	60–65
Appendix B: Basis for Conclusions.....	66–126
Appendix C: Illustrations.....	127
Appendix D: Codification Instructions	128

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Government Combinations and Disposals of Government Operations

January 2013

INTRODUCTION

1. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term *government combinations* is used in this Statement to refer to a variety of arrangements including mergers and acquisitions. Government combinations also include transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

2. Guidance previously applied to government combinations was developed for nongovernmental entities and, therefore, addressed conditions and circumstances that would generally not be present in government combinations. Conversely, that guidance did not address conditions and circumstances that are normally encountered in government combinations. In addition, the accounting and financial reporting guidance that currently addresses disposals of components for nongovernmental entities conflicts with the financial statement presentation requirements for proprietary funds in paragraphs 100 and 101 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which require a single measure of operating income. This Statement addresses both of those issues within the context of the governmental environment.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

3. This Statement establishes accounting and financial reporting standards for government combinations and disposals of government operations. Government combinations are arrangements that meet the definition of a *government merger, government acquisition, or transfer of operations* as set forth in paragraphs 10, 11, and 12, respectively, and meet the service continuation requirement in paragraph 9. This Statement applies to all state and local governmental entities.

4. Transactions within the scope of this Statement may involve combinations of legally separate entities, such as a governmental entity with other governmental entities, or a governmental entity with not-for-profit or for-profit entities if the new or continuing organization is a government. Government combinations also include mergers and acquisitions of activities that comprise less than an entire legally separate entity and involve only the assets and liabilities previously used by an entity to provide specific goods or services. This Statement refers to such activities as operations. An *operation* is an integrated set of activities conducted and managed for the purpose of providing identifiable services with associated assets or liabilities. For example, an operation may include the assets and liabilities specifically associated with the activities conducted and managed by the fire department in a general purpose government. Conversely, fire engines donated to or acquired by a fire department would constitute only a portion of that activity and, therefore, would not constitute an operation.

5. The definition of operations also applies to the provisions for disposals of government operations in paragraphs 51–54 and 58 of this Statement. Disposals of government operations refer to the operations of a government, as defined in paragraph 4 of this Statement, which have been transferred or sold.

6. This Statement does not apply to arrangements involving assets and related liabilities that do not constitute an operation. Such arrangements likely represent other events such as purchases or contributions of assets, or assumptions of liabilities. The provisions of an arrangement may not clearly indicate whether

a set of assets and liabilities that has been transferred or sold constitutes an operation. In those circumstances, professional judgment should be used to assess whether assets or liabilities comprise an operation within the scope of this Statement.

7. Although this Statement provides guidance for mergers and acquisitions of complete entities, it does not address combinations in which a government acquires another organization that continues to exist as a separate entity. This Statement also does not address the acquisition of equity interests in organizations that remain legally separate from the acquiring government. Statement No. 14, *The Financial Reporting Entity*, as amended, provides the financial reporting requirements for legally separate organizations that comprise a financial reporting entity, and for reporting a government's ownership of equity interests.

8. This Statement amends Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, paragraph 3, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, as amended, paragraph 209.

Identifying Government Combinations—Service Continuation

9. To be considered a government combination, an arrangement should result in the continuation of a substantial portion of the services provided by the previously separate entities or their operations after the transaction has occurred. Generally, the terms and conditions of an arrangement establish whether service continuation was intended. In some instances, however, there may be uncertainty about whether a service continuation was intended or whether a government has acquired a group of assets and related liabilities. Service continuation means that the new or continuing government intends to provide services similar to the formerly separate governments, organizations, or operations. If the specific provisions of an arrangement do not indicate the extent to which services will continue to be provided, professional judgment should be used to determine whether a government combination, subject to the requirements of this Statement, has occurred.

Types of Government Combinations

10. A *government merger* is a government combination of legally separate entities in which no significant consideration is exchanged and either:

- a. Two or more governments (or one or more governments and one or more nongovernmental entities) cease to exist as legally separate entities and are combined to form one or more new governments, or
- b. One or more legally separate governments or nongovernmental entities cease to exist and their operations are absorbed into, and provided by, one or more continuing governments.

11. A *government acquisition* is a government combination in which a government acquires another entity, or the operations of another entity, in exchange for significant consideration. The consideration provided should be significant in relation to the assets and liabilities acquired. The acquired entity or operation becomes part of the acquiring government's legally separate entity.

12. A *transfer of operations* is a government combination involving the operations (as defined in paragraph 4 of this Statement) of a government or nongovernmental entity, rather than a combination of legally separate entities, in which no significant consideration is exchanged. Operations may be transferred to another existing entity or to a new entity.

- a. A transfer of operations to an existing entity occurs when a government transfers operations, for example, a public safety function, to another existing government. A transfer of operations to an existing entity also may result from arrangements such as reorganizations, redistricting, and annexations, in which operations are combined through jurisdictional changes in boundaries. Similarly, a transfer of operations to an existing entity may be present in shared service arrangements in which governments agree to combine operations.
- b. A transfer of operations to a new government occurs in shared service arrangements in which governments agree to combine operations and transfer assets and liabilities to a new government. Similarly, the transfer of operations to a new government occurs when an operation of a single government is reorganized as a new government created to provide those services; for example, the formation of a library district that was formerly a department of a general purpose government.

Government Mergers

New Governments

13. For a new government that results from the type of merger described in paragraph 10a of this Statement, the merger date is the date on which the combination becomes effective. The initial reporting period of the new government begins on the merger date. The combined assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the merging entities should be recognized and measured in the statement of net position as of the beginning of that initial reporting period.

Recognition

14. The new government, as of the merger date, should recognize the assets, deferred outflows of resources, liabilities, or deferred inflows of resources of the merging entities. If financial statements are not prepared for a dissolved entity as of the merger date, the assets, deferred outflows of resources, liabilities, or deferred inflows of resources as of the merger date should be recognized based on the accounting principles applied in the most recent financial statements (subject to the provisions of paragraph 15 of this Statement).

15. The new government should not recognize additional assets, deferred outflows of resources, liabilities, or deferred inflows of resources that authoritative guidance for state and local governments¹ does not require or permit the merging governments to recognize (for example, intangible assets that were not required to be reported). If the assets, deferred outflows of resources, liabilities, or deferred inflows of resources of one or more of the merging entities are not recognized in conformity with authoritative guidance for state and local governments, those elements should be adjusted to bring them into conformity with that guidance before the merged government recognizes the combined assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

¹See Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

Measurement

16. The new government should measure the assets, deferred outflows of resources, liabilities, or deferred inflows of resources as of the merger date at the carrying values as reported in the separate financial statements of the merging entities. If financial statements are not prepared for a dissolved entity as of the merger date, the assets, deferred outflows of resources, liabilities, or deferred inflows of resources as of the merger date should be measured based on the accounting principles applicable to state and local governments applied in the most recent financial statements (subject to the provisions of paragraph 15 of this Statement).

17. The beginning net position of the merged government results from combining the carrying values of the assets, deferred outflows of resources, liabilities, or deferred inflows of resources of the separate entities. However, the new government may choose to adjust some carrying values to bring the accounting principles of the merging entities into alignment. In addition, it may be required to adjust some carrying values for the impairment of capital assets as described in paragraph 19 of this Statement.

18. The merging entities may have measured assets, deferred outflows of resources, liabilities, or deferred inflows of resources by applying different, but acceptable, methods of accounting in their separate financial statements. The new government may adjust the amounts of those elements to reflect a consistent method of accounting as long as those methods comply with the accounting and financial reporting requirements for state and local governments. If adjustments to achieve a consistent method of accounting are made, they should be applied to the opening balances carried forward into the merged government's financial statements. An explanation of those adjustments should be disclosed in the notes to the financial statements as described in paragraph 56b of this Statement. Assets, deferred outflows of resources, liabilities, or deferred inflows of resources reported in the separate financial statements of the merging entities that are based on accounting estimates should be carried forward into the opening balances of a new government's financial statements without modifications. If changes in accounting estimates are made, they should be recognized in the flows statements of the new government.

Impairment

19. If the merging entities decide before the merger date to dispose of capital assets and the new government will use those capital assets until the disposal occurs, those capital assets should be measured and reported at their carrying values by the new government. However, if the new government will not use capital assets that have been identified for disposal, those assets should be evaluated for impairment by the new government in accordance with the provisions of Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, as amended, to determine whether their carrying values should be adjusted. Similarly, if the merging entities decide before the merger date that the manner or duration of use of specific capital assets that will not be disposed of will change, the new government should evaluate those capital assets for impairment.

Continuing Governments

20. For a continuing government merger described in paragraph 10b of this Statement, the merger date is the beginning of the reporting period in which the combination occurs, regardless of the actual date of the merger. Continuing governments should recognize and measure the combined assets, deferred outflows of resources, liabilities, and deferred inflows of resources, results of operations, and cash flows, if applicable, of the merging entities for the reporting period in which the combination occurs as though the entities had been combined at the beginning of the continuing government's reporting period.

Recognition

21. The continuing government, as of the merger date, should recognize the assets, deferred outflows of resources, liabilities, or deferred inflows of resources of the merging entities. If financial statements are not prepared for a dissolved entity as of the merger date, the assets, deferred outflows of resources, liabilities, or deferred inflows of resources as of the merger date should be recognized based on the accounting principles applied in the most recent financial statements (subject to the provisions of paragraph 22 of this Statement).

22. The continuing government should not recognize additional assets, deferred outflows of resources, liabilities, or deferred inflows of resources that authoritative guidance for state and local governments² do not require or permit the merging governments to recognize (for example, intangible assets that were not required to be reported). If the assets, deferred outflows of resources, liabilities, or deferred inflows of resources of one or more of the merging entities are not recognized in conformity with authoritative guidance for state and local governments, those elements should be adjusted to bring them into conformity with that guidance before the continuing government recognizes the combined assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

Measurement

23. The continuing government should measure the assets, deferred outflows of resources, liabilities, or deferred inflows of resources as of the merger date at the carrying values as reported in the separate financial statements of the merging entities. If financial statements are not prepared for a dissolved entity as of the merger date, the assets, deferred outflows of resources, liabilities, or deferred inflows of resources as of the merger date should be measured based on the accounting principles applicable to state and local governments applied in the most recent financial statements (subject to the provisions of paragraph 22 of this Statement).

24. The beginning net position of the merged government results from combining the carrying values of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the separate entities. However, the continuing government may choose to adjust some carrying values to bring the accounting principles of the merging entities into alignment. In addition, it may be required to adjust some carrying values for the impairment of capital assets as described in paragraph 26 of this Statement.

25. The merging entities may have measured assets, deferred outflows of resources, liabilities, or deferred inflows of resources by applying different, but acceptable, methods of accounting in their separate financial statements. The continuing government may adjust the amounts of those elements to reflect a consistent method of accounting as long as those methods comply with the accounting and financial reporting requirements for state and local govern-

²See footnote 1.

ments. If adjustments to achieve a consistent method of accounting are made, they should be applied to the opening balances carried forward into the merged government's financial statements. An explanation of those adjustments should be disclosed in the notes to the financial statements as described in paragraph 56b of this Statement. Assets, deferred outflows of resources, liabilities, or deferred inflows of resources reported in the separate financial statements of the merging entities that are based on accounting estimates should be carried forward into the opening balances of a merged government's financial statements without modifications. If changes in accounting estimates are made, they should be recognized in the flows statement of the continuing government.

Impairment

26. If the merging entities decide before the actual date of the merger to dispose of capital assets of the dissolving government but the continuing government will use those capital assets until the disposal occurs, those capital assets should be measured and reported at their carrying values by the continuing government. However, if the continuing government plans to dispose of capital assets that it will not use, those capital assets should be evaluated for impairment in accordance with Statement 42, as amended, to determine whether their carrying values should be adjusted. Similarly, if decisions are made before the actual date of the merger that the manner or duration of use of specific capital assets of the dissolving government that will not be disposed of will change, the continuing government should evaluate those capital assets for impairment.

Eliminations

27. Transactions between the merging entities that occur before the combination should be eliminated in the combination process subject to the provisions in paragraphs 59 and 60 of Statement 34, which describes the effect of interfund services provided and used. Receivables and payables between the merging entities should be eliminated pursuant to the requirements of paragraph 58 of Statement 34.

Reporting Government Mergers in Governmental Fund Financial Statements

28. In a government merger, the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that will be reported in governmental funds should be recognized pursuant to the financial reporting requirements for governmental funds.

Government Acquisitions

Recognition and Measurement of Government Acquisitions

29. In a government acquisition, the date on which the acquiring government obtains control of the assets and becomes obligated for the liabilities of an acquiree entity or its operations is the acquisition date. Generally, the acquisition date coincides with the date on which the acquiring government provides consideration—the closing date. However, the parties may have designated another date at which the acquiring government obtains control of assets and becomes obligated for the liabilities of an acquiree.

30. The acquiring government should recognize the assets, deferred outflows of resources, liabilities, or deferred inflows of resources acquired or assumed at the acquisition date, in conformity with authoritative guidance for state and local governments.³ The acquiring government's application of recognition principles may result in recognizing assets, deferred outflows of resources, liabilities, or deferred inflows of resources that the acquired organization was not required to recognize.

31. The acquired entity may have recognized deferred outflows of resources (or goodwill, by a nongovernmental entity) from previous acquisition transactions in which the consideration provided exceeded the net position acquired. The acquiring government should not recognize such deferred outflows of resources (or goodwill).

32. The acquiring government should measure the acquired assets, deferred outflows of resources, liabilities, or deferred inflows of resources, except for balances noted in paragraphs 31 and 33–36 of this Statement, at acquisition

³See footnote 1.

value as of the acquisition date. For purposes of this Statement, *acquisition value* is a market-based entry price. An entry price is assumed to be based on an orderly transaction entered into on the acquisition date. Acquisition value represents the price that would be paid for acquiring similar assets, having similar service capacity, or discharging the liabilities assumed as of the acquisition date.

Exceptions to the Use of Acquisition Value

33. The acquiring government should measure assets, deferred outflows of resources, liabilities, or deferred inflows of resources related to the acquired entity's employment benefit arrangements, such as compensated absences, pensions, other postemployment benefits, or termination benefits, using the accounting and financial reporting requirements for state and local governments that are applicable to those transactions to the extent such benefits are not terminated.

34. The acquiring government should measure liabilities (and assets, if any) related to the acquired entity's municipal solid waste landfill closure and post-closure care costs or obligations for pollution remediation using the accounting and financial reporting requirements for state and local governments that are applicable to those transactions.

35. The acquiring government should measure investments, including derivatives that are required to be reported at fair value, using the accounting and financial reporting requirements for state and local governments that are applicable to those transactions.

36. Deferred outflows of resources and deferred inflows of resources should be measured at the carrying values previously reported by the acquired government, except for those that relate to effective hedging arrangements as provided for in paragraph 20 of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those deferred outflows of resources and deferred inflows of resources should be adjusted to reflect the difference

between the acquisition value and the carrying value of acquired hedged items.⁴ Any remaining deferred outflows of resources or deferred inflows of resources associated with derivatives should be accounted for by the acquiring government in conformity with the provisions of paragraph 23 of Statement 53.

Consideration

37. The consideration provided by the acquiring government should be measured as of the acquisition date as the sum of the values of the assets remitted or liabilities incurred to the former owners of the acquired entity, as determined in conformity with paragraphs 32–36. Consideration may include financial and nonfinancial assets; for example, cash, investments, or capital assets. In addition, a liability incurred may represent an obligation to provide consideration to the former owners of the acquired entity. For example, a government may issue a note payable in addition to, or in lieu of, cash to the former owners of an organization in exchange for the net assets of that organization. For purposes of this Statement, negative net position of an entity recognized in a government merger or a transfer of operations (that is, a net liability assumed by the combined government) does not, by itself, constitute consideration given.

38. A government acquisition may include a potential transfer of cash or other assets that is contingent upon specified events in the future. Contingent consideration should be recognized in conformity with Statement 62, paragraphs 96–112, which describe the accounting and financial reporting requirements for contingencies. For example, the acquiring government should recognize estimated liabilities arising from contingent consideration arrangements when information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred and the amount of the obligation can be reasonably estimated. Additional amounts of consideration provided under contingent consideration arrangements should be recognized as an adjustment to deferred outflows of resources, contributions, or noncurrent assets, other than financial assets acquired as described in paragraphs 39–41 of this Statement.

⁴If the hedged item is an expected transaction, as discussed in paragraph 29 of Statement 53, there is no asset or liability to be recognized by the combined government at acquisition value. Therefore, a deferred outflow of resources or a deferred inflow of resources attributable to an effective hedge of an expected transaction should be recognized by the combined government at its carrying value.

39. For circumstances in which the consideration provided exceeds the net position acquired (as determined by applying the provisions of paragraphs 29–36 of this Statement), the acquiring government should report the difference as a deferred outflow of resources. The deferred outflow of resources should be attributed to future periods in a systematic and rational manner, based on professional judgment, considering the relevant circumstances of the acquisition. The length of the attribution period may be determined by considering such factors as the following:

- a. The estimated service lives of capital assets acquired, when acquisitions are largely based on the expected use of those capital assets
- b. The estimated remaining service life for acquisitions of landfills that are capacity-driven
- c. The expected length of contracts acquired
- d. The estimated remaining service life of technology acquired, if the acquisition is based on the expected efficiencies of a technology system.

A government should periodically review and revise its estimate of the attribution period in subsequent reporting periods.

40. For circumstances in which the consideration provided is less than the net position acquired (as determined by applying the provisions of paragraphs 29–36 of this Statement), the acquiring government should eliminate the excess net position acquired by reducing the acquisition values assigned to the noncurrent assets (other than financial assets) that are acquired, unless the conditions of the acquisition arrangement indicate that a contribution should be recognized by the acquiring government, as set forth in paragraph 41 of this Statement. If the allocation reduces the acquisition value of the acquired noncurrent assets (other than financial assets) to zero, the remainder of the excess should be recognized as a special item in the flows statements.

41. In circumstances in which the seller intends to accept a lower price in order to provide economic aid to the acquiring government without directly receiving equal value in exchange, the acquiring government should recognize a contribution. The provisions of an arrangement would generally indicate whether economic aid is intended.

Acquisition Costs

42. Acquisition costs are the costs the acquiring government incurs to effect a government acquisition. Acquisition costs include, but are not limited to, fees for legal, accounting, valuation, professional, or consulting services. The acquiring government should recognize an expense/expenditure for acquisition costs in the periods in which the costs are incurred and the services are received. The costs to issue debt should be recognized in conformity with applicable accounting and financial reporting requirements for state and local governments.

Intra-Entity Government Acquisitions

43. When accounting for government acquisitions within the same financial reporting entity, the acquiring government should recognize the assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the carrying values of the selling entity. The difference between the acquisition price and the carrying value of the net position acquired should be reported as a special item by the acquiring government in its separately issued statements and reclassified as transfers or subsidies, as appropriate, in the financial statements of the reporting entity.⁵

Reporting Government Acquisitions on a Provisional Basis

44. If the initial measurement of certain assets, deferred outflows of resources, liabilities, or deferred inflows of resources is not finalized by the end of the reporting period in which the government acquisition occurs, the acquiring government should recognize estimated amounts for the items for which the measurement is not finalized. The acquiring government should prospectively update the estimated amounts reported as of the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of amounts recognized as of that date.

⁵Application of the provisions of this Statement should be the same for both discretely presented and blended component units. That is, the provisions should first be applied in the separate financial statements of the component unit.

Reporting Government Acquisitions in Governmental Fund Financial Statements

45. In a government acquisition, the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that will be reported in governmental funds should be recognized pursuant to the financial reporting requirements for governmental funds. The net fund balance acquired should be recognized by the acquiring government as a special item in the statement of revenues, expenditures, and changes in fund balances in the period of acquisition.

Transfers of Operations

46. For transfers of operations, as described in paragraph 12 of this Statement, the effective transfer date is the date the transferee government obtains control of the assets and becomes obligated for the liabilities of the operation transferred. A continuing government should report a transfer of operations as a transaction in its financial statements for the reporting period in which it occurs. Alternatively, if a transfer of operations results in the formation of a new government, the new government's initial reporting period begins at the effective transfer date. Transfers of operations should be recognized by the disposing government in conformity with the provisions for disposals of government operations in paragraphs 51–54 of this Statement.

47. The transferee government should recognize the carrying values of assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the operations of the transferor government or nongovernmental entity as of the effective transfer date. If the assets, deferred outflows of resources, liabilities, or deferred inflows of resources of one or more of the transferor entities' operations are not recognized and measured in conformity with authoritative guidance for state and local governments,⁶ those elements should be adjusted to bring them into conformity with that guidance before the transferee government recognizes the assets, deferred outflows of resources, liabilities, and deferred inflows of resources related to a transferred operation. The transferee government should not recognize additional assets, deferred outflows of resources, liabilities, or deferred inflows of resources that authoritative guidance for state and local governments does not require or permit the transferor to recognize (for example, intangible assets that were not required to be reported). The net

⁶See footnote 1.

position received or assumed by a continuing transferee government should be reported as a special item. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of an operation received when establishing a new government should be included in the statement of net position at the beginning of its initial reporting period.

48. The entities involved in a transfer of operations may have measured the assets, deferred outflows of resources, liabilities, or deferred inflows of resources by applying different, but acceptable, methods of accounting in their separate financial statements. Transferee governments may adjust the amounts of those assets, deferred outflows of resources, liabilities, or deferred inflows of resources to reflect a consistent method of accounting as long as those methods comply with the accounting and financial reporting requirements for state and local governments. If adjustments to reflect a consistent method of accounting are made, they should be applied to the balances carried forward into the transferee government's financial statements. An explanation of those adjustments should be disclosed in the notes to the financial statements as described in paragraph 56b of this Statement. Assets, deferred outflows of resources, liabilities, or deferred inflows of resources associated with the operations reported in the transferor government's separate financial statements that are based on accounting estimates should be carried forward into the balances of a transferee government's financial statements without modifications. If changes in accounting estimates are made, they should be recognized in the flows statements of the transferee government.

49. If decisions are made before the effective transfer date to dispose of capital assets and the transferee government will use those capital assets until the disposal occurs, those capital assets should be measured and reported at the carrying values by the transferee government. However, if the transferee government will not use those capital assets identified for disposal, they should be evaluated for impairment in accordance with Statement 42, as amended, to determine whether their initial carrying values should be adjusted. The transferee government should provide an explanation of adjustments for impairment in the notes to the financial statements as described in paragraph 56b. Similarly, if decisions are made before the effective transfer date that the manner or duration of use of specific capital assets that will not be disposed of will change, the transferee government should evaluate those capital assets for impairment.

Reporting Transfers of Operations in Governmental Fund Financial Statements

50. For transfers of operations as described in paragraph 12 of this Statement, the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that will be reported in governmental funds should be recognized pursuant to the financial reporting requirements for governmental funds. Transferee governments should recognize the net fund balance of an operation it receives as a special item in the statement of revenues, expenditures, and changes in fund balances in the period in which the transfer occurs.

Disposals of Government Operations

51. A disposing government should recognize a gain or loss on the disposal of operations, if applicable. Gains or losses on the disposal of operations should be reported as a special item in the period in which the disposal occurs, based on either the effective transfer date of a transfer of operations, or the date of sale for operations that are sold.

52. The amount of the gain or loss on the disposal of operations should not include adjustments and costs associated with the normal operating activities of the operation up to the measurement date. The disposing government should include only those costs that are directly associated with the disposal of operations when determining the amount of the gain or loss to report.

53. Costs directly associated with the disposal of government operations include, but are not limited to, benefits provided to a government's employees for involuntary terminations, contract termination costs, or other associated

costs, such as fees for professional services. Those costs should be recognized and measured as follows:

- a. The costs of benefits provided to a government's employees for involuntary terminations should be measured and recognized in accordance with Statement No. 47, *Accounting for Termination Benefits*.⁷
- b. Contract termination costs related to a disposal of operations should be recognized when it is probable that a liability has been incurred and the amount of the obligation can be reasonably estimated as described in Statement 62, paragraphs 96–112.
- c. Other costs incurred during the disposal period that are directly associated with the disposal of operations should be included in the gain or loss recognized. In addition, the disposing government should accrue any known costs of future goods and services related to the transfer or sale of an operation as of the effective date of the disposal, when it is probable that a liability has been incurred and the amounts of the obligation can be reasonably estimated as described in Statement 62, paragraphs 96–112.

Reporting Disposals of Government Operations in Governmental Fund Financial Statements

54. The disposal of operations should be reported as a special item in the statement of revenues, expenditures, and changes in fund balances in the period in which the disposal occurs. The disposing government should recognize an amount equal to the fund balance of an operation it disposes of, net of consideration, if any. The special item should include expenditures directly associated with the disposal of operations as described in paragraphs 52 and 53 of this Statement.

⁷The use of existing financial reporting requirements, such as Statement 47, to recognize costs directly associated with a disposal of government operations may result in initial recognition of those costs in a period earlier than the measurement dates in paragraph 51 of this Statement. In those instances, those costs associated with a disposal of operations would not be included in the gain or loss on the disposal of government operations.

Notes to the Financial Statements

All Government Combinations

55. For each government combination, the government should include the following information in the notes to financial statements for the period in which the combination occurs:

- a. A brief description of the government combination, including identification of the entities involved in the combination and whether the participating entities were included within the same financial reporting entity
- b. The date of the combination
- c. A brief description of the primary reasons for the combination.

Government Mergers and Transfers of Operations

56. The new government or continuing government also should disclose the following information:

- a. The amounts recognized as of the merger date or the effective transfer date as follows:
 - (1) Total assets—distinguishing between current assets, capital assets, and other assets
 - (2) Total deferred outflows of resources
 - (3) Total liabilities—distinguishing between current and long-term amounts
 - (4) Total deferred inflows of resources
 - (5) Total net position by component
- b. A brief description of the nature and amount of significant adjustments made to bring into conformity the individual accounting policies or to adjust for impairment of capital assets resulting from the merger or transfer
- c. The initial amounts recognized by the new or continuing government, if different from the values in (a) and the differences that arise from modifying the carrying values in (a) by the adjustments in (b).

Government Acquisitions

57. In the period in which an acquisition occurs, the acquiring government also should disclose the following information:

- a. A brief description of the consideration provided
- b. The total amount of net position acquired (based on the provisions set forth in paragraphs 29–36 of this Statement) as of the date of acquisition
- c. A brief description of contingent consideration arrangements, including the basis for determining the amount of payments that are contingent.

Disposals of Government Operations

58. In the period in which operations are transferred or sold, the disposing government should identify the operations and provide a brief description of the facts and circumstances leading to the disposal of those operations. In addition, the disposing government should identify and disclose the following information about the disposed government operations if not separately presented in its financial statements:

- a. Total expenses, distinguishing between operating and nonoperating, if applicable
- b. Total revenues, distinguishing between operating and nonoperating, if applicable
- c. Total governmental fund revenues and expenditures, if applicable.

EFFECTIVE DATE AND TRANSITION

59. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

**The provisions of this Statement need
not be applied to immaterial items.**

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.

Robert H. Attmore, *Chairman*
James E. Brown
William W. Fish
Michael H. Granof
David E. Sundstrom
Jan I. Sylvis
Marcia L. Taylor

Appendix A

BACKGROUND

60. Historically, when combinations have occurred in the governmental environment—for example, when a city and county have joined together to form a consolidated government—governments generally followed the guidance in APB Opinion No. 16, *Business Combinations*. Specifically, the “pooling of interests” guidance and the “purchase method” were followed to the extent that those methods could be applied to government combinations. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 141, *Business Combinations*, which superseded Opinion 16 for nongovernmental business activities. That Statement eliminated the pooling of interests method and required that all business combinations be accounted for by the purchase method. In December 2007, the FASB issued Statement No. 141(revised), *Business Combinations*, which superseded Statement 141. FASB Statement 141(R) did not apply to combinations of not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization. The FASB issued Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, in April 2009 to address accounting for combinations involving not-for-profit entities. FASB Statement 164 distinguishes between mergers and acquisitions and provides that a not-for-profit entity resulting from a merger should account for the combination using the carryover method. The carryover method requires the new entity to measure the combined assets or liabilities at the amounts reported in the separate financial statements of the merging entities.

61. GASB pronouncements do not specifically refer to Opinion 16; however, the pre-November 30, 1989, applicability provision in paragraph 17 of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, affirmed its applicability. Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued in December 2010, did not incorporate the provisions of Opinion 16 into the GASB literature. As noted in the Basis for Conclusions of Statement 62, the Board considered whether to (a) incorporate the Opinion 16 provisions that are applicable to consolidation, acquisition, or other means of combination as interim guidance or (b) exclude Opinion 16 provisions from incorporation into the GASB literature until the Board could perform comprehensive research on government combinations. Due to the substantive modifications that would

have been necessary to adapt to the government environment the criteria for when a combination should be treated as a pooling of interests versus a purchase or acquisition, the Board determined that Opinion 16 and its related amendments and interpretations should be excluded from Statement 62, and the accounting and financial reporting of government combinations should be fully addressed in a separate project. As a result, prior to the issuance of this Statement, the authoritative literature for governments to follow when accounting for combinations was derived from prevalent practice. The existence of the FASB's combinations standards, coupled with the status of Opinion 16 in the authoritative literature, highlighted the necessity for combinations standards that would be applicable to governmental entities and the unique environment of governmental operations.

62. The Board also considered incorporating 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*, into Statement 62. Opinion 30 addresses accounting for the disposal of a segment of a business. As explained in paragraph 8 of that Opinion, this refers to a segment of a business “that has been sold, abandoned, spun off, or otherwise disposed of or, although still operating, is the subject of a formal plan for disposal.” The Board concluded that provisions on disposals of a segment of a business should not be incorporated into the GASB literature with Statement 62 and that this topic should be addressed in a separate Statement along with government combinations because those provisions conflict with provisions in Statement 34.

63. A proposal for an earlier government combinations project was presented to the Board in December 2003. The Board concluded at that time that the project should be included on the research agenda. The project was transferred to the potential projects list in January 2006; however, it was subsequently returned to the research agenda in April 2009 after receiving feedback from the Governmental Accounting Standards Advisory Council (GASAC). The project staff conducted its initial research to identify the accounting and financial reporting issues that potentially could be addressed in this project. The research included an analysis of the statutes and constitutions of states to determine (a) under what conditions combinations and mergers of general or special-purpose local governments are permissible and (b) the processes that the combining governments are required to undertake in accomplishing the combinations. In April 2010, the GASAC was provided with a staff update on the research to date and ranked the project as one of its highest priorities. A project prospectus on government combinations was discussed by the GASAC in

October 2010. At the December 2010 meeting, the Board reviewed the project prospectus, considering the GASAC member input, and the GASB chairman added the project to the current technical agenda.

64. A task force was assembled in January 2011, comprising 13 persons broadly representative of the GASB's constituency. The task force members reviewed and commented on papers prepared for the Board's deliberations and on a draft of the Exposure Draft. In addition, further input was sought from the GASAC members at its meetings.

65. In March 2012, the Board issued an Exposure Draft, *Government Combinations and Disposals of Government Operations*. The Board received 28 responses to the Exposure Draft. As discussed throughout the Basis for Conclusions of this Statement, the comments and suggestions from the organizations and individuals who responded to the Exposure Draft contributed to the Board's deliberations in finalizing the requirements of this Statement.

Appendix B

BASIS FOR CONCLUSIONS

66. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Scope and Applicability

67. The primary objective of this Statement is to consider the accounting and financial reporting requirements for government combinations that are accomplished through mergers, acquisitions, and transfers of operations. The scope extends to government combinations that occur in general governmental activities, business-type activities, and fiduciary activities. The term *government combination*, as used in this Statement, refers to a variety of arrangements, the substance of which varies. Consequently, the accounting and financial reporting provisions of this Statement vary to suit the relevant characteristics of each type of arrangement. The accounting and financial reporting guidance for government combinations is organized on the basis of government mergers (government combinations without the presence of significant consideration), government acquisitions (government combinations involving significant consideration), and transfers of operations. In addition, this Statement addresses disposals of operations, from the disposing government's perspective, for situations in which a government transfers or sells operations.

Definition of Operations

68. The provisions of this Statement apply to both (a) combinations of entire legally separate entities and (b) combinations of activities that comprise less than a legally separate entity and involve only the assets and liabilities previously used by an entity to provide specific services. The Board believes that the guidance in this Statement is necessary to distinguish arrangements that represent government combinations from other arrangements such as pur-

chases or donations of an individual asset or a group of assets. This Statement uses the term *operations* to refer to an integrated set of activities conducted and managed for the purpose of providing identifiable services with associated assets or liabilities.

69. The Board acknowledges that the determination of whether groups of assets represent operations, for purposes of identifying government combinations, may be based on the assessment of several qualitative factors. The Board identified several potential qualitative characteristics for identifying operations within the governmental environment. The Board considered that fund accounting systems may represent a potential determinant of operations, especially in instances in which special revenue or enterprise funds are used to account for a single activity of a government. However, the Board observed that a single fund may contain multiple activities; alternatively, a single activity may be allocated across multiple funds of a government. The Board determined that fund accounting systems alone did not provide a reliable means for deriving financial information about an operation of a government.

70. The Board also considered segments (encompassing the notion of identifiable activities), as described in Statements No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*. The Board observed that segments, as they are described in those Statements, apply only to enterprise funds and therefore would likely require significant modification in order to apply to activities accounted for in other fund types. The Board also considered International Public Sector Accounting Standard No. 18, *Segment Reporting*, for characteristics of groups of assets and liabilities used to provide specific goods or services to serve as a basis for defining operations. The Board noted the relevance of factors such as the primary operating objectives of the entity; the goods, services, and activities that relate to the achievement of each of those objectives; whether resources are allocated and budgeted on the basis of groups of goods and services; and the nature of the goods or services provided or activities undertaken and whether this reflects the way in which the entity is managed and financial information is reported to senior management and the governing board. The Board concluded that the determination of whether groups of assets represent operations may be based on a variety of factors and, therefore, requires the use of professional judgment. The term *operation* is broadly defined in this Statement to include the many ways in which governments deliver services to their constituents. The definition

requires that (a) operations should possess an integrated set of assets or liabilities and (b) those assets or liabilities should be associated with an identifiable service, function, or activity of a government or other organization.

The Financial Reporting Entity

71. This Statement does not address government combinations in which one entity acquires another organization that continues to exist as a separate entity. In the governmental financial reporting model, those organizations that retain separate legal standing may be required to be included in a financial reporting entity as component units. In the nongovernmental setting, the notion of control is used to identify the acquirer of the combining entities. The Board observed in its deliberations that the usefulness of determining control is significantly diminished for government combinations because the notion of control is addressed within the broader context of financial accountability in Statement No. 14, *The Financial Reporting Entity*, as amended.

72. Some respondents to the Exposure Draft were concerned about the potential differences in the recognition and measurement of an acquisition, as defined in paragraph 11 of this Statement, and the acquisition of 100 percent ownership of an equity interest in an organization that retains its separate legal standing. The requirements in paragraphs 29–36 of this Statement regarding the recognition and measurement of a government acquisition do not apply to acquisitions of organizations that are reported as component units. Rather, Statement 14, as amended, establishes the requirements for recognizing and measuring an equity interest asset and reporting the underlying financial statement data of the component unit. The Board acknowledges that there may be differences in how those acquisitions are reported but concluded that this Statement was not the appropriate medium for reconsideration of the financial reporting entity concept and the related financial reporting requirements.

73. The structure and relationships of governing boards, which provide the primary basis for including component units within a reporting entity, are likely to change following a government combination. A new analysis of relationships with existing component units of the combining governments and relationships with other organizations would be performed based on the financial reporting entity requirements of Statement 14, as amended. For example, if the combining governments cease to exist as legally separate entities, their relationships with other organizations as the new combined government would be reexamined as a matter of applying the financial reporting entity requirements to the

new entity. If one of the combining governments survives the combination in its legally separate form, its previous component unit relationships likely would not change, but the relationships with any component units of the other governments that are merged or acquired also may need to be reevaluated.

Service Continuation

74. The Board believes that determining whether certain arrangements represent a government combination subject to the requirements in this Statement requires consideration of the services that entities or their operations provide and whether the services will continue to be provided. In its deliberations, the Board considered the use of specific definitions similar to those described in the FASB literature for business combinations and not-for-profit entity combinations to determine whether an arrangement represents a combination or an other transaction. The FASB literature defines the terms *business activities* and *not-for-profit activities* for that purpose. To assist in making that determination for government combinations, this Statement provides a definition of *operations* in paragraph 4. Paragraph 9 applies that definition to the service continuation provision as the basis for determining whether a government combination has occurred, or whether a government has merely acquired a group of assets and related liabilities. The Board believes that service continuation is an important distinction because the accounting and financial reporting of combinations differs significantly from the accounting and financial reporting of asset purchases or contributions. The essential distinction is whether a merged government (or acquiring government) will continue to provide services similar to those formerly provided by the individual governments or organizations. For example, if the operations of a city's fire department are transferred to a county's fire department as the result of an intergovernmental agreement, and the county will provide fire protection services to the city's constituency and will use the transferred assets in its fire protection operations, service continuation occurs. The Board concluded that the specific provisions and circumstances of government combinations will likely indicate whether services will continue. However, the Board acknowledges the possibility that determining whether services continue will sometimes require the use of professional judgment.

75. Respondents to the Exposure Draft sought clarification about application of the service continuation provision in paragraph 9. Some respondents asked how the provision for service continuation is applicable to circumstances in which some but not all of the services or activities formerly provided by an acquired or merged entity will continue. Others sought clarification with regard

to the precision of the scope of the services that are continued. Still other respondents asked how the provision for service continuation should be applied to circumstances in which an agreement does not explicitly impose an obligation or responsibility for the continuation of service. The Board intended the service continuation provision to be applied to situations in which it is not clear whether the substance of a transaction is a government combination or the acquisition of a group of assets and related liabilities. The Board acknowledges that the scope of services to be provided and the manner in which those services are delivered may often differ after the combination has occurred. For example, a fire department operation, transferred to a newly established regional fire authority for the purpose of providing emergency services to a broader region, may not operate precisely in the same manner as before the combination. Further, the Board concluded that an agreement need not explicitly state an obligation or responsibility for services to be continued. In those instances, professional judgment should be used in evaluating the government's purpose and intent for entering into the transaction.

Types of Government Combinations

76. This Statement requires the identification of government combinations as *government mergers, government acquisitions, or transfers of operations*. The defining feature for distinguishing between government mergers and government acquisitions is the transfer of significant consideration. The Board believes the presence of significant consideration provides a suitable basis for distinguishing between government mergers and government acquisitions. Respondents to the Exposure Draft sought clarification about the meaning of significant in relation to each of the participating entities in a transaction. Respondents noted that the consideration provided in a transaction might be *significant* to one of the participating entities but not the other. After considering this feedback, the Board concluded that the standard should be clarified and, as a result, established that the consideration provided in a government acquisition should be significant in relation to the assets and liabilities acquired for purposes of distinguishing between types of government combinations.

77. In addition to government mergers and government acquisitions, this Statement also includes accounting and financial reporting guidance for transfers of operations. Transfers of operations may be present in certain arrangements such as shared service arrangements, reorganizations, annexations, or redistricting, as well as in arrangements in which an operation of a government is transferred to a new government created to provide those services. These

arrangements are similar in nature to government mergers in the sense that they are transacted without the exchange of significant, if any, consideration. Therefore, the accounting and financial reporting requirements of this Statement for such arrangements are similar to the provisions of this Statement for government mergers.

Government Mergers

78. As indicated in the description of government mergers used in paragraph 10 of this Statement, some merging entities will cease to exist as legally separate entities and a new government will be created. In other mergers, legally separate entities may be dissolved and their operations absorbed into one or more existing governments, but a new entity is not created. Rather, an existing entity continues to exist in an altered state. The initial presentation of a merged government's financial statements will depend on whether a new governmental entity is created as the result of the merger or whether an existing entity will continue to exist.

79. This Statement requires presentation of financial statements as of the merger date for situations in which a new legally separate government is created as a result of the merger arrangement. The Board believes the use of the merger date appropriately portrays an economic event that occurs when entities combine and therefore signifies the date when a new government is created for financial reporting purposes. The Board acknowledges that basing the presentation of financial information on the merger date might result in "short-year" presentations of the merged government's initial reporting period. The Board noted that, in practice, government mergers generally are designed to become effective on the first day of the merged government's fiscal year.

80. For government mergers in which new legally separate entities are not created, this Statement requires the initial presentation of financial information as of the beginning of the continuing government's reporting period. That approach is consistent with Opinion 16, which requires a merged entity to present the financial statements as if the merger would have taken place at the beginning of the reporting period. In addition, the presentation of financial statements for continuing governments provides consistency with the requirements contained in Statement 62 for reporting changes in the financial reporting entity. The Board believes that this presentation provides useful information for assessing trends and evaluating how the continuing government's financial position has changed as a result of the merger arrangement.

81. This Statement requires that new or continuing governments initially recognize and measure the assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the carrying values of the combining entities. The Board observed that a significant factor that may lead to decisions to merge governments is the intent to reduce the cost of services through achievement of economies of scale or by elimination of similar services. The Board believes that initial recognition at the carrying values previously reported by the pre-merger governments retains the historical perspective of reporting assets and liabilities that are significant to the delivery of services. The Board observed that in the period immediately before and immediately after a government merger, there is likely no perceivable difference in the services provided and, therefore, the impact on cost of services should be minimal when the same assets are used to provide essentially the same services before and after the governments merge.

82. The Board also considered the use of a fresh-start (new-basis) method for recognition and measurement purposes for government mergers in which a new entity is created. That valuation approach is based on the view that newly combined entities are essentially brand new entities for financial reporting purposes. Applying a fresh-start valuation approach to a new government could require that the assets and liabilities of the combining entities be recognized at fair value. However, the Board concluded that in a service continuation scenario, the basis upon which the cost of providing those services is determined should not be modified. This conclusion eliminated further consideration of a fresh-start or new-basis valuation approach.

83. The Board believes that the use of carrying values for recognition and measurement of government mergers should be based on the premise that the merging entities' assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized and measured in conformity with authoritative accounting and financial reporting guidance applicable to state and local governments. The Board concluded that the absence of an explicit requirement in this Statement may result in the omission of significant assets, deferred outflows of resources, liabilities, or deferred inflows of resources.

84. With regard to recognition and measurement, this Statement requires that a two-step process be utilized to establish the initial balances of a new or continuing government. The first step in the process is to bring forward the carrying values of assets, deferred outflows of resources, liabilities, and deferred inflows of resources. The second step is to adjust the carrying values, as considered necessary or desirable, to bring into alignment the accounting

principles that will be used by the combined government. The process to establish the initial opening balances of the new or continuing government is disclosed in the initial financial statements of the new or continuing government within the context of a restatement disclosure, as required by paragraph 56b. The Board believes this approach provides a basic foundation for transitioning from the pre-merger to the post-merger amounts reported by the merged government.

Adjustments of Accounting Policies

85. The use of carrying values for recognition and measurement purposes for government mergers implies that the classifications, assumptions, estimates, and other principles underlying or related to the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the participating entities also should be carried forward into the combined government. The Board considered that a potential disadvantage of applying a carry-forward approach is the possibility that similar assets, deferred outflows of resources, liabilities, or deferred inflows of resources will be combined even though they may have been measured by the merging entities using different but acceptable accounting principles or policies. The Board concluded that significant differences in the measurement of similar assets, deferred outflows of resources, liabilities, or deferred inflows of resources due to the application of different accounting principles should be considered when establishing the opening balances of the new or continuing government. This Statement allows for modifications to bring accounting policies into alignment by adjusting the balances carried forward into a new or continuing government. Some conforming changes, if applied, may result in restatements of previously reported amounts and, therefore, affect the opening balances of the carried forward amounts. Some respondents to the Exposure Draft suggested that the final Statement require alignment of the accounting policies of the combining governments. However, the Board agreed to retain the permissive provisions from the Exposure Draft because a governmental financial reporting entity is not precluded from having multiple accounting policies. The approach taken in this Statement provides flexibility to merged entities that may wish to continue to utilize the accounting methods or policies of a previous entity as long as those methods and policies are in conformity with authoritative guidance for state and local governments.

86. The Board concluded that changes in accounting estimates should be accounted for prospectively as period costs of the new merged government, based on the view that future events and their effects cannot be perceived with certainty and should reflect the estimates of the new government's management prospectively from the date of the combination. In addition, the Board believes that restating the carrying values at the time of a merger to incorporate changes in estimates would be inconsistent with the requirement in Statement 62 that changes in accounting estimates not be accounted for by restating amounts from prior periods.

Adjustments for Capital Asset Impairment

87. Because capital assets such as buildings, infrastructure, roads, bridges, tunnels, dams, and sewer systems represent a significant classification of assets that governments deploy in the delivery of services, they present an important consideration for modifications to carrying amounts. One concern expressed by the Board about using carrying values of capital assets was the potential overstatement of the remaining service capacity of those assets from the perspective of the merged government. Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, provides accounting and financial reporting guidance for impairment of capital assets and requires governments to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment has occurred. The Board noted that governments will have considered pre-merger impairment of their capital assets, based upon the indicators in Statement 42, given the requirement of this Statement that the merging entities' assets be measured and recognized in conformity with authoritative accounting and financial reporting guidance for state and local governments.

88. The Board considered that there are at least two aspects to government mergers that raise the possibility of capital asset impairment: (a) decisions to sell or otherwise dispose of capital assets and (b) decisions that result in changes in the manner or duration of use of capital assets. The Board believes that, in some government mergers, decisions will be made that affect the manner or expected duration of use of capital assets. For example, an administrative office facility might be reassigned to another function if a newly merged government finds itself with two such facilities. In this example, a decision to use one of the facilities for a different purpose might represent an impairment indicator requiring further evaluation of impairment.

89. The Board concluded that to remain consistent with Statement 42, if the decision to dispose of capital assets is made by the combining entities before the actual date of the combination and the new or continuing government will continue to use those assets as originally intended until the disposal occurs, the combined government should recognize those capital assets at their carrying values in its initial opening balances. However, if capital assets will not be used by the combined government, the carried forward amounts of capital assets should be evaluated for impairment and initially recognized net of any impairment adjustments.

Elimination of Transactions

90. Transactions may have occurred between the entities that will be merged, resulting in reported amounts payable and receivable between the combining governments such as notes receivable, notes payable, or intergovernmental receivables or payables. The Board observed that some merger agreements likely will address the disposition of those balances based on the applicable state laws or statutes governing mergers of separate governments. This Statement does not require the elimination of the effects of pre-merger activity. For combinations in which a new government is not created, the Board determined that transactions between the merging governments that occur before the combination that would be included in the flows statement of the continuing government should be considered for elimination in the process of aggregating financial reporting information subject to the provisions in paragraphs 59 and 60 of Statement 34.

Government Acquisitions

Recognition and Measurement

91. The Board concluded that an acquiring government should identify the assets, deferred outflows of resources, liabilities, or deferred inflows of resources acquired or assumed that are recognized in conformity with authoritative guidance for state and local governments. The Board noted that in doing so, an acquiring government may discover items that an acquired entity had not previously recognized because it was not required to do so. The Board considered a situation in which a previously unrecognized intangible asset could have significance to the acquiring government. For instance, if the acquired government is a phase 3 government, as described in Statement 34, that has not

retroactively recognized an intangible asset for acquired water rights, that intangible asset likely would have significant value to the acquiring government and, consequently, should be recognized in the financial statements of the acquiring government.

92. The *purchase method* described in Opinion 16 required the acquiring entity to allocate the cost of acquiring an entity to each of the assets and liabilities acquired. Opinion 16 required the use of fair values in making allocations of the purchase price; however, the guidance also describes other basic guidelines for assigning amounts. Similarly, the *acquisition method* described in FASB Statements 141(R) and 164 generally requires measurements of assets acquired and liabilities assumed based on fair value. Under the acquisition method, measurements of assets and liabilities based on fair value are believed to provide greater comparability and understandability than measurements based on the application of different measures. These financial reporting requirements are similar in that each method contains a general requirement for the use of fair value measurements. This Statement, however, requires that acquired assets and liabilities generally be measured at their *acquisition value* (as defined in paragraph 32) as of the acquisition date because acquisition value corresponds to the price for acquiring similar assets or discharging similar liabilities that result from a market-based exchange. Some respondents to the Exposure Draft expressed concern about the introduction of the new term *acquisition value*, and suggested that *fair value* be used instead. The Board is sensitive to those concerns, but it agreed to retain the term *acquisition value* for the final Statement to avoid the possibility of determining an exit price (fair value) rather than an entry price. The Board observed that in some instances, acquisition value and fair value may result in similar measurements. However, significant differences may exist between acquisition values and fair values for items such as nonfinancial assets. For example, there may be considerable differences in the values assigned to capital assets based on the application of either an entry price or an exit price. The Board concluded that for acquired nonfinancial assets, such as capital assets, acquisition values provide a more relevant measurement basis for government acquisition transactions.

93. As noted earlier, the Board is deliberating the definition of fair value in a separate project. In light of those ongoing deliberations, the Board concluded that an acquiring government should continue to report investments at fair value if they are (a) acquired as part of a government combination and (b) currently required by authoritative guidance for state and local governments to be reported at fair value.

94. This Statement requires an acquiring government to recognize and measure assets and liabilities resulting from employee benefit arrangements in conformity with applicable financial reporting requirements. The Board considered the complexities associated with determining obligations under Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and No. 68, *Accounting and Financial Reporting for Pensions*, and concluded that it would not be practical to require postemployment obligations to be remeasured using an alternative basis such as acquisition value.

95. This Statement's requirement to use existing financial reporting requirements also extends to recognition and measurement of other employee benefits such as compensated absences or termination benefits. Statement No. 16, *Accounting for Compensated Absences*, establishes accounting and financial reporting standards for vacation leave and other similar compensated absences. Statement No. 47, *Accounting for Termination Benefits*, provides the guidance for recognizing liabilities for termination benefits. The Board believes that the liabilities for compensated absences and termination benefits described in those Statements produce employment-related liabilities that are relevant because they are based on the specific agreements that created the liabilities. The Board also believes that those liabilities should be carried over to the extent that the obligation for those benefits will be honored by the combined government.

96. The Board believes that for government acquisitions, the most relevant measures for both municipal solid waste landfill (MSWLF) closure and postclosure care liabilities and pollution remediation liabilities are based on an evaluation of (a) the facts and circumstances relating to each liability and (b) the current costs that are estimated to be necessary to satisfy those obligations. Those estimates are developed using relevant information available at the time of measurement about the specific circumstances. Measurements that are based on current costs and expectations are more relevant for pollution and landfill obligations because there is a logical relationship between the liability and the factors upon which the obligation is based. Therefore, the Board concluded that liabilities for MSWLF closure and postclosure care costs and pollution remediation obligations should continue to be measured and recognized in conformity with existing financial reporting requirements rather than acquisition value, for purposes of this Statement.

Deferred Outflows of Resources and Deferred Inflows of Resources

97. The Board considered the possibility that a government may acquire another organization that had recognized amounts as a deferred outflow of resources (or as goodwill by a nongovernmental entity) from previous acquisition transactions in which the consideration provided exceeded the net position acquired. Given the requirement of this Statement to recognize excess amounts of consideration provided as a deferred outflow of resources, the Board concluded that a pre-existing deferred outflow of resources of that nature will ultimately be included within that deferred outflow amount of the acquiring government.

98. The Board considered that an acquired government may include balances for deferred outflows of resources and deferred inflows of resources. Because deferred outflows of resources and deferred inflows of resources are not considered assets or liabilities by Concepts Statement No. 4, *Elements of Financial Statements*, the question arises as to whether the deferred items recognized by an acquired entity are relevant to the acquiring government. The Board considered alternatives for addressing how “pre-acquisition” reported deferred outflows of resources and deferred inflows of resources could be addressed for government acquisitions.

99. The Board initially considered a requirement to exclude deferred outflows of resources and deferred inflows of resources from the items recognized in government acquisitions. That alternative would reflect the notion that deferred outflows of resources and deferred inflows of resources are not part of the overall activity that an acquiring government seeks to purchase. The Board considered the argument that it is only the assets and liabilities that are acquired but did not agree with that premise, primarily for two reasons. First, the Board was influenced by the underlying concept of interperiod equity. The Board believes that excluding deferred outflows of resources and deferred inflows of resources from recognition in an acquisition transaction would obscure a potentially significant characteristic of certain assets or liabilities. For example, an acquired government may be holding cash from a grant or a property tax levy received in advance, or cash from a significant up-front payment pursuant to a service concession arrangement. The fact that those resources represent revenues applicable to post-acquisition time periods, but will not be received in those periods, should be considered in determining the net position acquired. Second, the Board observed that some items that are

classified as deferred outflows of resources and deferred inflows of resources in the governmental model are classified as assets and liabilities, respectively, in the business and not-for-profit models.

100. The Board considered an alternative approach in which the deferred outflows of resources and deferred inflows of resources are carried forward by the acquiring government. For example, if an acquired government reported a deferred inflow of resources from a service concession arrangement arising from a significant up-front payment, and the service concession arrangement were to continue after the acquisition, the Board considered whether it was appropriate to continue to attribute that deferred inflow of resources to future periods. By virtue of the definitions in Concepts Statement 4, deferred outflows of resources and deferred inflows of resources are applicable to future reporting periods and, thus, recognition in the flows statements is dependent on the passage of time. The Board concluded that this characteristic does not change because the organization that entered into the arrangement has been acquired. Furthermore, not recognizing the deferred inflow of resources overstates the net position acquired because it ignores the loss of the future revenues that were sacrificed in the arrangement. Consequently, the Board determined that all elements in an acquiree's statement of net position should be identified and that carrying over balances of deferred inflows and deferred outflows of resources (except those identified in paragraphs 31 and 36 and discussed in paragraphs 97 and 101) and retaining those balances in the combined government's statement of net position is appropriate until the necessary conditions exist for recognition within the flows statement.

101. The Board concluded that a conceptual basis for remeasurement of deferred outflows of resources or deferred inflows of resources generally does not exist for government acquisitions, and one does not exist for excluding the assets or liabilities that are related to deferred outflows of resources or deferred inflows of resources from remeasurement. For example, if capital assets were contributed under a service concession arrangement, the contribution of capital assets that is being deferred is measured at the fair value on the date of the contribution. Subsequent increases or decreases in the fair value of the capital asset do not affect the amount of the contribution. The deferred inflows of resources recognized by the transferor government, in this instance, are based on the circumstances of the initial arrangement only. Accordingly, this Statement generally requires that deferred outflows of resources and deferred inflows of resources not be changed to reflect the remeasurement of associated assets or liabilities. Paragraph 36 of this Statement provides an exception to the requirement to measure recognized deferred outflows of resources and de-

ferred inflows of resources at their carrying values. That exception, which applies to deferred amounts from most effective hedging arrangements, is based on the notion that the hedged items, recognized by the acquired government at cost, would be remeasured at acquisition value pursuant to the requirement in paragraph 32, thereby potentially eliminating the basis for the initial recognition of a deferred outflow of resources or a deferred inflow of resources.

Consideration

102. For purposes of reporting government acquisitions, the Board believes that consideration is limited to providing assets or incurring a liability to the former owners of the acquired organization. In the Board's deliberations about consideration, the assumption of the liabilities of an acquired organization was discussed as a form of consideration. Some respondents to the Exposure Draft expressed their belief that the assumption of a net liability (negative net position acquired) does constitute consideration and should indicate that an acquisition has taken place. The Board acknowledges that the assumption of negative net position could be considered a form of consideration in certain environments. However, in the context of the state and local government environment in which entities generally do not have significant net position as a matter of policy, to consider the assumption of negative net position as a form of consideration would result in the application of acquisition accounting for any combination in which the liabilities assumed exceed the assets acquired.

103. The Board observed that a substance versus form evaluation of consideration was necessary for purposes of distinguishing government acquisitions from government mergers, thereby limiting potential engineering of combination arrangements in order to remeasure assets and liabilities. The Board concluded that significant consideration should be part of an arrangement for a combination to be considered a government acquisition. Arrangements that involve the transfer of assets and liabilities in exchange for a nominal amount more closely resemble a government merger than the acquisition of another organization.

104. Government acquisitions may include agreements to transfer cash or other assets contingent upon specific events or transactions that may occur in the future. The Board concluded that consideration that is contingent on future events should be recognized as a component of consideration when the

payment of consideration is probable and the amount is reasonably estimable, consistent with recognition and measurement of contingent liabilities as described in Statement 62 and related pronouncements.

Recognition of the Excess Consideration Provided or the Excess Net Position Received

105. The Board considered several approaches for recognizing consideration in excess of the net position received in a government acquisition. A combination accounted for under the provisions of Opinion 16 recognized the difference as an asset referred to as goodwill. The Board considered whether amounts of excess consideration should continue to be recognized as assets. Concepts Statement 4 defines assets as resources with present service capacity that the government presently controls. Paragraph 12 of Concepts Statement 4 indicates that the government controlling the asset generally has the ability to determine whether to (a) directly use the present service capacity to provide services; (b) exchange the present service capacity for another asset, such as cash; or (c) employ the asset in any other way it may provide benefit. The Board considered that future realization of economies of scale and efficiencies that arguably could be attributed to the excess purchase price might meet the criterion for providing future benefits; however, the Board concluded that excess consideration does not meet the definition of an asset because it does not represent a resource that can be drawn on to provide services.

106. The Board also considered whether the excess consideration provided should be reported as an outflow of resources of the acquiring government for the period when the acquisition occurs. Concepts Statement 4 defines an outflow of resources as a consumption of net assets by the government that is applicable to the reporting period. The Board considered the position that excess amounts of consideration represent the “net cost” of the acquisition and, because the acquisition took place during the current period, the cost of the acquisition also could be a period cost—a consumption of net assets that is applicable to the reporting period. However, because of the expected future benefits discussed in the preceding paragraph, the Board agreed that the excess consideration should not be attributed solely to the period of the acquisition.

107. The Board then considered recognizing the excess consideration as a deferred outflow of resources. Concepts Statement 4 defines a deferred outflow of resources as a consumption of net assets by the government that is

applicable to a future reporting period. In evaluating this alternative, the Board concluded that although it believes that the excess acquisition amount does not meet the definition of an asset, the excess inherently relates to services that the government will provide in the future based on the characteristics described in the preceding paragraphs. For that reason, the Board determined that amounts of excess consideration represent the consumption of net assets by the acquiring government that inherently are related to the future realization of economies of scale, cost reductions, or efficiencies of providing services and, thus, would satisfy the future applicability aspect of a deferred outflow of resources. The Board observed that the specific periods to which the consumption of net assets should be attributed may be difficult to determine; however, the realization of the value acquired will likely take place over future periods.

108. In some government acquisitions, the acquiring government purchases an entity or its operations for an amount less than the acquisition value of the assets acquired and liabilities assumed (and the net carrying amount of deferred outflows of resources and deferred inflows of resources recognized). This Statement requires an approach similar to the guidance in Opinion 16 when the value of the net assets acquired exceeds the purchase price. The Board concluded that unless there is a clear indication by the transferor that acceptance of the lower purchase price constitutes a contribution, the excess amount received should be allocated to reduce the acquisition values assigned to noncurrent assets other than financial assets. Some respondents to the Exposure Draft stated that the final Statement should require that all excess net position acquired be recognized as a contribution for comparability to similar arrangements in the not-for-profit sector. The Board considered that argument but continues to believe that allocations to reduce those acquisition values appropriately reflect the cost incurred to acquire those assets, as evidenced by a negotiated exchange between market participants. The allocations to reduce the excess net position acquired are limited to noncurrent assets other than financial assets, because financial assets generally are expected to be converted to cash at their net realizable value.

109. For circumstances in which there is a clear indication by the transferor that acceptance of the lower purchase price constitutes a contribution, this Statement requires the acquiring government to recognize the excess net position acquired as a contribution as of the acquisition date. The Board observed that in the government environment, acquisitions may not always represent an exchange transaction that presumes an exchange of equal value. Governments or other organizations may intend to make a contribution for the public benefit by agreeing to a below-market-priced transaction. The Board

concluded that the acquiring government receives an economic benefit in this circumstance because the acquiring government is better off by the amount by which the value of what is acquired exceeds the value of the consideration given. Therefore, that amount should be recognized as a contribution in the flows statements.

110. The Board also considered the potential for an acquisition in which excess net position received represents neither a bargain purchase nor a contribution from the acquiree. An acquiree may accept a lower purchase price in recognition of obligations or commitments that are not currently required by generally accepted accounting principles to be recognized as liabilities. For example, a negotiated acquisition price may be affected by a significant contingency or certain postemployment benefit obligations that, if required to be recognized, would result in additional liabilities being assumed by the acquirer. The Board concluded that in those situations, governments should use professional judgment in determining the most faithfully representative disposition of the excess net position received.

Intra-Entity Government Acquisitions

111. This Statement requires that sales of operations within the same financial reporting entity be accounted for in a manner that is consistent with the guidance described in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, regarding intra-entity transfers of assets. Paragraph 15 of Statement 48 requires that governments not revalue assets that are transferred between components of a financial reporting entity. This Statement builds upon the guidance described in Statement 48 regarding transfers of assets by requiring government acquisitions that occur within the financial reporting entity to be recognized using carrying values. The Board concluded that an approach similar to that taken in Statement 48, regarding intra-entity transfers of assets, avoids the perception that the reporting entity is better or worse off because of internal transactions. In other words, the financial position of a financial reporting entity should not be improved by establishing a new basis for its assets and liabilities resulting from “selling” an entity or its operations to another fund or to a component unit.

Reporting Government Acquisitions on a Provisional Basis

112. The Board considered the possibility that some government acquisitions may initially require the use of estimates to measure assets acquired or liabilities assumed. A government may require additional time to determine the measurement amounts of certain assets or liabilities. Similarly, the existence of contingent consideration arrangements requires estimates to be used to determine whether financial statement recognition is appropriate. This Statement requires 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. The Board believes that these measurements are similar to changes in other accounting estimates, which are accounted for prospectively.

Transfers of Operations

113. In a shared service arrangement, two or more governments agree to consolidate similar operations. For example, two governments may agree to consolidate the separate fire departments of each government into a single shared activity serving the constituents of both governments. The shared service arrangement could be in the form of a separate government, joint venture, jointly governed organization, joint operation, or cost-sharing arrangement. Moreover, the Board recognized that *reorganization* and *annexation* are terms that are commonly used to describe changes in the territorial boundaries of governments. In a government annexation arrangement, one government extends the bounds of its geographic footprint to include new incorporated or unincorporated areas. Often, annexations result only in changes in boundaries, and the annexed governments generally do not give up assets or gain relief from liabilities. However, in annexations in which assets, deferred outflows of resources, liabilities, and deferred inflows of resources comprising an operation are transferred, those items are required to be recognized at the carrying amounts reported by the transferring government. Similarly, the Board observed that the term *redistricting* is frequently used to refer to situations in which boundary lines are redrawn. For example, redistricting may be used in a school district's enrollment rebalancing efforts. Sometimes, however, redistricting may involve the transfer of operations from one district to another. In those instances, the Board believes the redistricting is similar to reorganizations or annexations and, therefore, the measurement of the assets and liabilities

transferred should be consistent. Lastly, some arrangements result in transfers of operations from an existing government to form the basis of a new government. Such arrangements represent the separation of a portion of a single government rather than a combination arrangement involving two or more legally separate governments. The Board believes that even though that arrangement may not be considered a government combination, per se, the provisions in paragraphs 46–50 are applicable.

114. The Board believes that transfers of operations are entered into by governments for substantially the same reasons as mergers. Thus, the measurements that are applicable to mergers also should be applicable to these arrangements. The Board believes that the use of carrying values for measurement purposes of transfers of operations provides consistency with government mergers and retains a predominantly historical cost perspective for the assets and liabilities that are utilized to deliver government services.

Disposals of Government Operations

115. As explained in paragraph 535 of Statement 62, the Board deferred incorporation of guidance about disposals of the segments of a business into the authoritative literature for state and local governments until the issue could be addressed with topics related to government combinations. Paragraphs 51–54 of this Statement include accounting and financial reporting guidance for disposals of government operations.

116. The Board believes that recognition of a disposal of a government operation as of the effective date at which operations are transferred or sold corresponds to the underlying transaction. This Statement does not require governments to recognize government operations to be disposed of by a planned future sale. Statement 42 does not consider a capital asset that a government plans to sell, but is continuing to use as originally intended until the sale occurs, as having exhibited a change in the manner or expected duration of use. Thus, recognition of disposals of operations based on a plan of future sale may conflict with recognition of impairment of capital assets. In addition, this Statement does not address disposals of operations that are abandoned. The Board believes that accounting and financial reporting for abandonments are sufficiently addressed by the requirements of Statement 42, with regard to changes in the manner or expected duration of use of capital assets.

Accounting for Additional Costs Associated with Disposals of Government Operations

117. The Board recognized that a government's disposal of an operation may include a plan of involuntary employee termination and, therefore, concluded that the additional cost of providing termination benefits should generally be included in the determination of a gain or loss reported for a disposal of operations. This Statement provides that liabilities for termination benefits should be measured in conformity with Statement 47, which requires governments to recognize a liability and expense for involuntary termination benefits when a plan of termination (a) has been approved by those with the authority to commit the government to the plan, (b) has been communicated to the employees, and (c) has amounts that can be reasonably estimated. The Board considered that costs may be incurred incrementally when disposing of operations based on the application of the recognition criteria described in Statement 47. For example, a liability and expense for termination benefits associated with an operation that a government is disposing of may be recognized before the disposal of the assets related to an operation if a plan of termination has been approved in advance of the effective date of the disposal. In that situation, a government would recognize, as *employee benefit expense*, a portion of the costs of disposing of an operation in an earlier reporting period. The Board determined that recognizing costs related to incrementally disposing of an operation corresponds with the underlying events that transpire with a disposal of operations. However, for financial reporting purposes, termination benefits associated with the disposal of an operation are those that are incurred in the period in which an operation is transferred or sold.

118. Additionally, the Board observed that the disposal of a government operation may include the possibility that certain long-term contracts, such as an operating lease for facilities, may be terminated. As a result, this Statement requires governments to consider the cost of terminating contracts early when determining the gain or loss on a disposal of operations. The Board recognized that liabilities for terminating long-term contracts should be determined based on the application of existing guidance for determining the accrual of loss contingencies described in Statement 62.

119. The Board also discussed the likelihood that a government may incur other costs, including professional costs, such as legal or accounting fees, directly associated with the transfer or sale of an operation. The Board believes that any additional costs incurred during the period that are directly associated

with a disposal of operations should be included in the determination of the gain or loss. In addition, the Board considered that a government also may be aware of costs directly associated with the disposal of an operation that will be incurred after the effective date of the disposal and concluded that, based on current authoritative guidance, those estimated costs also should be included in the gain or loss related to the transfer or sale of an operation as of the effective date of the disposal.

Notes to the Financial Statements

All Government Combinations

120. This Statement requires governments to disclose basic information about government combinations in notes to the financial statements. These requirements include information such as the type of government combination, the effective combination date, the entities involved, and the purpose of the combination. The Board concluded that, due to the complexity and variety of combination arrangements, it is essential for users of financial statements to have such information provided in a government's financial report to understand the financial effects of combination transactions.

Government Mergers and Transfers of Operations

121. This Statement requires a disclosure for mergers and transfers of operations that first presents the carrying values of assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the combining entities, followed by certain adjustments to determine the merged or transferred balances. The Board believes that this information is essential to understanding how amounts recognized in the new or continuing government's financial statements may differ from the amounts last reported for the merged entity or transferred operation, as well as to explain the pertinent details of the combination.

122. The approach required by this Statement for determining the initial opening or transferred balances permits modifications to reflect the consistent application of accounting principles. The Board concluded that disclosure of those changes is essential to understanding the specific nature of the changes. This Statement requires disclosure of the nature of and reasons for changes in accounting principles. Similarly, this Statement also requires disclosure of

adjustments made to recognize capital asset impairment. The Board concluded that additional detail about capital asset impairment due to changes in the expected manner or duration of use, or from decisions to sell capital assets, would provide users with information about how capital assets are expected to be used by the merged government.

Government Acquisitions

123. The Board concluded that the acquiring government should disclose the net position of the entity or operation that is acquired. This Statement also requires that the acquiring government provide a brief description of the consideration transferred and its acquisition value. The Board observed that for many government acquisitions, consideration consists of cash. However, the Board acknowledged that nonfinancial assets such as capital assets also may be used to acquire an entity or operation. Alternatively, a government also may incur liabilities (such as a note payable) to the owners of an entity that it acquires and, therefore, it would be essential to include a description of the terms of such financing arrangements in order to provide users with an understanding of the acquisition transaction.

Disposals of Government Operations

124. The Board concluded that disclosures about the revenues and expenditures/expenses of operations that are transferred or sold would provide information that helps enable users to assess the effects of the disposal in relation to the government's activities as a whole. For example, if the operations were formerly accounted for as a separate enterprise fund, sufficient information about the revenues and expenses of those operations is likely already available and additional disclosure is not required. However, if the operations disposed of are reported within a broader general government function (such as an emergency call center of a city's police and fire departments), disclosing a more detailed description of that operation's revenues and expenditures/expenses is necessary to provide users with a sufficient understanding of the operations that are transferred or sold.

Considerations Related to Benefits and Cost

125. During its deliberations, the Board regularly evaluates the expected benefits of a proposed standard, the costs to users that exist in the absence of the proposed guidance, and the perceived costs to preparers and auditors in implementing the standard. The Board believes that the benefits that derive from satisfying the previously unmet need for guidance specific to governmental combinations that is sensitive to issues unique to the governmental environment exceed the costs that may be incurred in implementing this Statement, recognizing that the requirements in this Statement do not depart significantly from current practice.

Effective Date and Transition

126. This Statement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The Board believes the effective date allows sufficient time for implementation. Some governments may wish to implement earlier than that date. Accordingly, this Statement encourages early application. The Board concluded that retrospective application would be impractical and burdensome for many governments because the information needed may not exist or may no longer be readily available.

Appendix C

ILLUSTRATIONS

127. This appendix illustrates certain requirements of this Statement. The facts assumed in these examples are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Application of the provisions of this Statement may require assessment of facts and circumstances other than those illustrated here. Existing standards may require disclosures in addition to those illustrated.

Illustration 1—Government Merger

Facts and assumptions: On November 2, 20X1, the citizens of Geary Township and the citizens of the surrounding Sample Village approved referendum 20X1-XX to merge their legally separate governments into a single new government that will be incorporated as Sample City. The merger will enable the new government (Sample City) to take advantage of cost efficiencies by the elimination of redundancies in service. The referendum establishes that a governing body for Sample City will consist of four representatives from each of the merging governments and includes a plan for the merger, formally known as the Municipal Consolidation Plan (merger plan). The merger is effective as of January 1, 20X2. As part of the merger plan, Sample City officials agreed to sell some of the redundant capital assets as soon as possible after the merger date, and those capital assets will not be used pending their sale. Sample City officials determined these capital assets are impaired as a result of the decision to dispose of them. Sample City officials determined that the decision to sell the assets resulted in a decrease of \$4 million in the capital asset account of the governmental activities related to the agreed-upon closing of the Sample Village's public works facilities. Officials of Sample City also determined an adjustment to the carrying value of inventory is necessary to reflect a consistent method of accounting, resulting in a decrease of \$80,000.

Accounting for the opening net position of Sample City

1. Sample City brings forward the carrying values separately reported in the statements of net position of Sample Village and Geary Township as of January 1, 20X2, and combines the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (including the classifications of net position).
2. Sample City adjusts the combined capital assets and net position by \$4 million for the impairment of capital assets resulting from the consolidation plan. Sample City also decreases the combined inventory and net position by \$80,000 to reflect a consistent method of accounting for its materials and supplies inventory.

Example Worksheet:

Note: The following worksheet is intended to illustrate how a government may determine its initial balances resulting from a government merger. For simplicity, the components of net position are not shown in this example worksheet.

	Statements of Net Position			Adjustments		Total
	Sample Village	Geary Township	Total	Debit	Credit	
ASSETS						
Cash and cash equivalents	\$ 23,877,042	\$ 22,229,649	\$ 46,106,691	\$ —	\$ —	\$ 46,106,691
Investments	27,365,221	29,314,866	56,680,087	—	—	56,680,087
Derivative instrument—rate swap	—	1,040,482	1,040,482	—	—	1,040,482
Receivables (net)	16,442,747	15,402,265	31,845,012	—	—	31,845,012
Inventories	448,823	250,000	698,823	—	80,000	618,823
Capital assets:						
Land, improvements, and construction in progress	153,408,694	34,843,175	188,251,869	—	4,000,000	184,251,869
Other capital assets, net of depreciation	168,002,817	282,572,377	450,575,194	—	—	450,575,194
Total assets	389,545,344	385,652,814	775,198,158	—	4,080,000	771,118,158
DEFERRED OUTFLOWS OF RESOURCES						
Accumulated decrease in fair value of hedging derivatives	—	127,520	127,520	—	—	127,520
LIABILITIES						
Accounts payable and accrued expenses	8,970,339	8,198,135	17,168,474	—	—	17,168,474
Advances from grantors	—	1,435,599	1,435,599	—	—	1,435,599
Forward contract	—	127,520	127,520	—	—	127,520
Long-term liabilities:						
Due within 1 year	13,662,266	9,547,351	23,209,637	—	—	23,209,637
Due in more than 1 year	157,784,651	91,463,340	249,247,991	—	—	249,247,991
Total liabilities	180,417,276	110,771,945	291,189,221	—	—	291,189,221
DEFERRED INFLOWS OF RESOURCES						
Accumulated increase in fair value of hedging derivatives	—	1,040,482	1,040,482	—	—	1,040,482
NET POSITION	\$ 209,128,068	\$ 273,967,907	\$ 483,095,975	\$ 4,080,000	\$ 4,080,000	\$ 479,015,975

Illustrative Disclosure

Note X: Government Merger

Sample City began operations January 1, 20X2, and was formed from the merger of the Geary Township and Sample Village to take advantage of the cost efficiencies based on the elimination of redundant services pursuant to the citizens' approval of referendum 20X1–XX, including the Municipal Consolidation Plan. The initial opening balances of Sample City's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, as of the beginning of the period, were determined on the basis of the carrying values reported in the separate financial statements of Geary Township and Sample Village as of December 31, 20X1, as follows:

	Sample Village	Geary Township	Total	Adjustments		Total
				Debit	Credit	
ASSETS						
Current assets	\$ 67,685,010	\$ 67,987,262	\$ 135,672,272	\$ —	\$ —	\$ 135,672,272
Capital assets	321,411,511	317,415,552	638,827,063	—	4,000,000	634,827,063
Other assets	448,823	250,000	698,823	—	80,000	618,823
Total assets	389,545,344	385,652,814	775,198,158	—	4,080,000	771,118,158
DEFERRED OUTFLOWS OF RESOURCES						
Accumulated decrease in fair value of hedging derivatives	—	127,520	127,520	—	—	127,520
LIABILITIES						
Current liabilities	22,632,625	19,308,605	41,941,230	—	—	41,941,230
Noncurrent liabilities	157,784,651	91,463,340	249,247,991	—	—	249,247,991
Total liabilities	180,417,276	110,771,945	291,189,221	—	—	291,189,221
DEFERRED INFLOWS OF RESOURCES						
Accumulated increase in fair value of hedging derivatives	—	1,040,482	1,040,482	—	—	1,040,482
NET POSITION						
Net investment in capital assets	176,799,960	222,799,960	399,599,920	4,000,000	—	395,599,920
Restricted	24,203,913	49,985,155	74,189,068	—	—	74,189,068
Unrestricted	8,124,195	1,182,792	9,306,987	80,000	—	9,226,987
Total net position	\$ 209,128,068	\$ 273,967,907	\$ 483,095,975	\$ 4,080,000	\$ 4,080,000	\$ 479,015,975

In determination of the beginning net position of Sample City as of January 1, 20X2, an impairment adjustment of \$4 million was recognized due to the closing of Sample Village’s public works facilities. In addition, an adjustment to reflect a consistent method of accounting for materials and supplies inventory resulted in an \$80,000 decrease in the beginning net position of Sample City.

Illustration 2—Government Acquisition with Excess Consideration Provided

Facts and assumptions: On September 30, 20X2, the City of Ammon Creek (City) acquires the operations of Bridgens Golf Inc., a privately owned golf course (Barkas Ridge), including water rights, in exchange for \$3 million to obtain the course for public use. The water rights were obtained to maintain the course. At the date of acquisition, the corporation is dissolved and the City will account for the operations of a municipal golf course in a newly established enterprise fund. As of September 30, 20X2, the financial position of Bridgens Golf Inc. was comprised of the following assets and liabilities:

Assets

Cash and cash equivalents	\$ 41,204
Accounts receivable	4,239
Inventories	101,706
Land	3,161,975
Buildings and equipment (net)	4,081,972
Total assets	7,391,096

Liabilities

Accounts payable and accrued expenses	19,473
Notes payable	6,850,445
Total liabilities	6,869,918

Net assets

\$ 521,178

Accounting at the acquisition date

1. The City identifies the assets acquired and liabilities assumed from its purchase of Bridgens Golf Inc. as of September 30, 20X2. In addition, the City identifies an intangible asset for water rights that meets the recognition criteria described in Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.
2. The City determines the acquisition values of the assets acquired and liabilities assumed as of the acquisition date, as indicated below. The City renegotiated the financing from the local institution that held the note payable. The amount required to discharge Bridgen's liability with the local institution was \$6,720,970. After assigning the acquisition values to the assets acquired and the liabilities assumed, the City determines that the consideration provided (\$3 million) exceeded the acquisition value of the net position acquired (\$2.9 million) by \$100,000. The City recognizes a deferred outflow of resources for the excess consideration provided and establishes an attribution period for the deferred outflow of resources over future reporting periods. Because a substantial portion of operations acquired consists of capital assets, the City determines that it will attribute the excess amount of consideration provided over the next 15 years based upon its estimate of the remaining service lives of the capital assets the City has acquired.
3. At September 30, 20X2, the City includes in its financial statements the following assets, deferred outflow of resources, liabilities, and components of net position as a result of the government acquisition:

Assets

Cash and cash equivalents	\$	41,204
Accounts receivable		4,239
Inventories		95,000
Land		5,000,000
Buildings and equipment		4,250,000
Intangible asset for water rights		250,000
Total assets		<u>9,640,443</u>

Deferred outflows of resources

Excess consideration provided for acquisition		<u>100,000</u>
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Liabilities

Accounts payable and accrued expenses		19,473
Notes payable		6,720,970
Total liabilities		<u>6,740,443</u>

Net position

Net investment in capital assets		2,779,030
Unrestricted		220,970
Total net position	\$	<u>3,000,000</u>

Illustrative Disclosure***Note X: Government Acquisition***

On September 30, 20X2, the City of Ammon Creek (City) acquired Bridgens Golf Inc., which owned the Barkas Ridge golf course and substantial water rights that attach to the golf course property in exchange for \$3 million. The City will operate and maintain the golf course as a municipal golf course for public use and account for its operations in an enterprise fund. The acquisition included all of the assets of Bridgens Golf Inc., consisting of 160 acres of land; water rights; golf facilities; driving range; and inventories. In addition, the City assumed the liability for the accounts payable and accrued expenses of Bridgens Golf Inc. and renegotiated the terms and conditions of a bank note payable. The acquisition value of the net position acquired as of the acquisition date was determined to be \$2.9 million.

Illustration 3—Government Acquisition with Excess Net Position Received

Facts and assumptions: The basic facts of the preceding illustration are the same except that the City gives less consideration and receives net assets in excess of the consideration provided. In this illustration, the City purchased Bridgens Golf Inc. for \$2.5 million.

Accounting at the acquisition date

1. The City identifies the assets acquired and liabilities assumed from its purchase of Bridgens Golf Inc. as of September 30, 20X2. In addition, the City identifies an intangible asset for water rights of \$250,000 that meets the recognition criteria described in Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.
2. The City determined the acquisition date values of the identified assets acquired and liabilities assumed, as indicated in the preceding illustration.
3. In this illustration, because the net assets received exceed the consideration the City provided by \$400,000, the City allocates this excess to the acquisition values of noncurrent assets, other than financial assets. The City allocates the excess based upon a proportionate share of the acquisition value assigned to each noncurrent asset.

<u>Acquired Assets</u>	<u>Acquisition Value</u>	<u>Allocation of Excess Net Position</u>	<u>Adjusted Acquisition Value</u>
Cash and cash equivalents	\$ 41,204	\$ —	\$ 41,204
Accounts receivable	4,239	—	4,239
Inventories	95,000	—	95,000
Land	5,000,000	(210,500)	4,789,500
Buildings and equipment	4,250,000	(179,000)	4,071,000
Intangible asset	250,000	(10,500)	239,500
Total acquired assets	<u>\$ 9,640,443</u>	<u>\$ (400,000)</u>	<u>\$ 9,240,443</u>

Illustrative Disclosure

Note X: Government Acquisition

On September 30, 20X2, the City of Ammon Creek (City) acquired Bridgens Golf Inc., which owned the Barkas Ridge golf course and substantial water rights that attach to the golf course property in exchange for \$2.5 million. The City will operate and maintain the golf course as a municipal golf course for public use and account for its operations in an enterprise fund. The acquisition included all of the assets of Bridgens Golf Inc., consisting of 160 acres of land; water rights; golf facilities; driving range; and inventories. In addition, the City assumed the liability for the accounts payable and accrued expenses of Bridgens Golf Inc. and renegotiated the terms and conditions of a bank note payable. The acquisition value of the net position acquired was determined to be \$2.9 million. The acquisition values of the land, buildings, equipment, and water rights were reduced to eliminate the \$400,000 excess net position received.

Illustration 4—Transfer of Operations

Facts and assumptions: Mountain Region Fire Authority (MRFA) is a separate municipal corporation, organized as a regional fire protection service authority. Under an intergovernmental agreement between the City of Price River (City) and the MRFA, the City will combine its fire protection operations with the MRFA for the purpose of providing services to the City's citizens. On March 15, 20X0, the City transferred the assets and liabilities comprising its fire service operations to the MRFA. The City transferred an administrative building, fire stations, engines, trucks, and various other equipment having a carrying value of \$6.3 million. The MRFA will also assume \$3.4 million of the City's long-term debt related to fire service operations. There are no deferred outflows of resources or deferred inflows of resources associated with the City's fire service operations.

Accounting at the transfer date

1. The assets and liabilities transferred to the MRFA represent an integrated set of assets and liabilities managed for the purpose of providing fire services, thus meeting the definition of an operation. In addition, service continuation

is presumed because the assets used by the City to provide fire services will be used in a similar manner by the MRFA to provide a similar service. There is no consideration given in the transaction.

2. The MRFA recognizes the carrying values of assets and liabilities of the City's fire service operations as of March 15, 20X0, and a special item of \$2.9 million representing the inflow of resources for the net position received. The MRFA determines that adjustments to the carrying values of assets related to the City's fire service operations are not necessary to reflect a consistent method of accounting or to reflect the impairment of capital assets. The MRFA discloses the transfer of operations in the notes to its financial statements.
3. The City derecognizes the assets and liabilities related to its fire service operations as of March 15, 20X0, and recognizes \$2.9 million (plus any costs directly associated with the disposal, as discussed in paragraph 53) as a special item representing the loss on disposal of operations. The City discloses the disposal of operations in the notes to its financial statements. None of the assets or liabilities disposed of were recognized in the City's governmental funds. Expenditures directly associated with the disposal, if any, would be reported as a special item.

Illustrative Disclosures

(For the transferee government—the MFRA)

Note X: Transfer of Operations

Under an intergovernmental agreement between the City of Price River (City) and the MRFA, the City agreed to combine its fire protection services with the MRFA for the purpose of enhancing the provision of those services to the City's citizens. On March 15, 20X0, the City transferred the assets and liabilities comprising its fire service operations to the MRFA. As a result of the transfer, the MRFA recognized the following assets, liabilities, and net position:

	<u>Carrying Values</u>
Transferred Assets (Net)	
Buildings	\$ 4,300,000
Vehicles (trucks and fire engines)	1,700,000
Equipment	300,000
Total capital assets	<u>\$ 6,300,000</u>
Transferred Liabilities	
Long-term debt	<u>\$ 3,400,000</u>
Net Position of Transferred Fire Protection Operation	
Net investment in capital assets	<u><u>\$ 2,900,000</u></u>

(For the disposing government—City of Price River)

Note X: Disposal of Operations

On March 15, 20X0, the City transferred the assets and liabilities comprising its fire service operations to the Mountain Region Fire Authority (MRFA) for the purpose of enhancing emergency fire services. As a result of the transfer, the City recognized a loss of \$2.9 million on the disposal of its fire service operations as a special item. The City's 20X0 expense related to its fire service operations totaled approximately \$11.2 million. 20X0 revenues associated with the City's fire service operations, consisting of both program and general revenues, totaled approximately \$9.6 million. Expenditures and revenues of the fire services operations reported in the general fund were \$10.9 million and \$9.7 million, respectively.

Appendix D

CODIFICATION INSTRUCTIONS

128. The section that follows updates the June 30, 2012, *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

REPORTING CAPITAL ASSETS

SECTION 1400

.139 [Delete subparagraph c.] [GASBS 51, ¶13, as amended by GASBS 69, ¶139]

* * *

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

.107 [Add GASBS 69, ¶155–¶158 to sources; add new subparagraph ggg as follows:] Government combinations and disposals of government operations. (See Section Co10, “Combinations and Disposals of Operations,” paragraphs .152–.155.)

* * *

INVESTMENTS

SECTION I50

.127 [Replace *goodwill* with *a deferred outflow of resources* and replace *amortized* with *attributed to future periods* in subparagraphs b and l.] [GASBS 62, ¶209, as amended by GASBS 63, ¶18 and GASBS 69, ¶139]

* * *

TERMINATION BENEFITS

SECTION T25

Sources: [Add the following:] GASB Statement 69

.108 [Add the following sentence at the end of the paragraph:] Termination benefit expense associated with the disposal of a government operation that is incurred in the period in which the operation is transferred or sold should be included in the determination of the gain or loss reported for the disposal of operations. [GASBS 47, ¶12; GASBS 69, ¶53]

.109 [Add the following sentence at the end of the paragraph:] Termination benefit expense associated with the disposal of a government operation that is incurred in the period in which the operation is transferred or sold should be included in the determination of the gain or loss reported for the disposal of operations. [GASBS 47, ¶13; GASBS 69, ¶53]

.112 [Add the following sentence at the end of the paragraph:] Termination benefit expenditures associated with the disposal of a government operation that are incurred in the period in which an operation is transferred or sold should be included in the determination of the amount reported as a special item for the disposal of operations. [GASBS 47, ¶16; GASBS 69, ¶54]

* * *

[Create new section as follows:]

COMBINATIONS AND DISPOSALS OF OPERATIONS

SECTION Co10

Source: GASB Statement 69

.101–.105 [GASBS 69, ¶3–¶7, including heading; change *Statement* to *section* and update cross-references.]

.106–.155 [GASBS 69, ¶9–¶58, including headings and footnotes; change *Statement* to *section* and update cross-references.]

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