National Association of State Auditors, Comptrollers and Treasurers

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Mr. David Bean
Director of Research
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED) document, *Government Combinations and Disposals of Government Operations.*

In general, we are in agreement with the provisions of this ED and believe the proposed standard will provide guidance which is needed to account for the increasing number of combinations among governments in the current economic environment. However, we have the following specific comments that we believe the board should consider as it finalizes this statement.

Paragraph 11
This paragraph indicates a government acquisition occurs when a government acquires another entity, or the operations of another entity, in exchange for the payment of "significant consideration." It is unclear whether the significance of the consideration is in relation to the acquiring government or the acquired organization. We recommend the Board include guidance on evaluating the measurement of "significant consideration."

Paragraph 12.b
This paragraph uses the term "new government entity." We would like to know if "governmental entity" refers to a primary government, a potential (or actual) component unit, or if it is any organization that is required to follow governmental GAAP. Please provide clarification as to the meaning of this term.

Paragraph 32
This paragraph refers to *acquisition value* as a market-based entry price. The ED states "acquisition value represents the price that would be paid for acquiring similar assets, having similar capacity, or discharging the liabilities assumed as of the acquisition date." We would like clarification as to what that means in a government environment. There may be driving factors in a government environment that do not exist in the private sector or with public companies. For example, a government may choose to acquire through combination with another government a grants eligibility and distribution system, but there is likely not a market for such a system.

Paragraph 40
We believe that the special item referenced at the end of the paragraph can only be a gain on acquisition when the amount paid is less than the fair value of the long-term investments and suggest this be made clear in the body of the standard.

Paragraph 43
For intra-entity government acquisitions, this paragraph indicates that the difference between the acquisition price and the transferred carrying value of the net position is a special item for financial reporting by the government transferee and reclassified as transfers or subsidies in the reporting entity financial statements. We are not familiar with the term "subsidies" in relation to financial statement reporting and recommend the Board provide a definition for the term "subsidies" or provide other additional clarifying language.

Paragraph 73
The term “reorganizations” is listed twice in this sentence without any differentiation of the meanings.

Paragraph 106
In regard to the discussion of excess consideration provided or excess net position received, we believe the board needs to explain why the conclusions for each transaction are not symmetrical (i.e., deferred outflow and deferred inflow, respectively). We question why the excess amount received should be allocated to noncurrent assets rather than recognized as a deferred inflow since the transaction does appear to meet the deferred inflow of resources definition (i.e., “an acquisition of net assets by the government that is applicable to a future reporting period”) and could also benefit future reporting periods.

Paragraphs 115-117
We believe the Board should consider adding this information to the main body of the text within paragraphs 51-53.

General Comments

- We request that the provisions for governmental fund financial statements be expanded and illustrated to explain how the merger, acquisition or transfer of operations would be displayed on the face of the balance sheet and statement of revenues, expenditures and changes in fund balance and disclosed in the notes to the financial statements. These provisions are given in paragraph 28 for mergers, in paragraph 45 for acquisitions, and in paragraph 50 for transfers of operations.

- We ask that a glossary be included in the final standard to facilitate understanding and implementation.

- In the example on page 39 of the ED the “Total net position” does not foot.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O’Ryan of NASACT at (859) 276-1147 or me at (334) 242-9200.

Sincerely,

Ronald L. Jones

Ronald L. Jones
NASACT President