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Accounting

Fair Value Disclosures Required in First Quarter by Statement No. 157

FASB Statement No. 157, *Fair Value Measurements*, expands financial statement disclosures about estimates of fair value and provides enhanced guidance as to the methods used to estimate the fair value of assets or liabilities, among other requirements. Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, permits delayed application of the Statement for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

When Statement No. 157 is initially applied (whether in full or under the partial deferral), paragraph 39 states that disclosures required by the Statement, including those required in annual periods only, be disclosed in the first interim period (including financial information included in Form 10-Q by public entities). The following disclosures are required:

- For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition, the entity must disclose information that enables users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings for the period. To meet that objective, the entity must disclose certain information in accordance with Statement No. 157 for each interim and annual period separately for each major category of assets and liabilities.
- For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition, the entity must disclose information that enables users of its financial statements to assess the inputs used to develop those measurements. To meet that objective, the entity must disclose certain information in accordance with Statement No. 157 for each interim and annual period separately for each major category of assets and liabilities.
- The quantitative required disclosures must be presented using a tabular format.
- The entity is encouraged to combine the fair value information disclosed under Statement No. 157 with the fair value information disclosed under other accounting pronouncements in the periods in which those disclosures are required, if practicable. The entity also is encouraged to disclose information about other similar measurements (for example, inventories measured at market value under ARB 43, Chapter 4), if practicable.

In addition, if an entity has only partially adopted the provisions of Statement No. 157 in interim or annual financial statements, the following must be disclosed until Statement No. 157 is applied to all assets and liabilities within its scope:

- The fact that the entity has only partially applied the Statement.
- Each major category of assets and liabilities that are recognized or disclosed at fair value for which, in accordance with FSP No. FAS 157-2, the entity has not applied the provisions of Statement No. 157.

FAF Adopts Changes to Its Governance

The Financial Accounting Foundation (FAF) Board of Trustees is responsible for the oversight, funding, and appointment of members of the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). In July 2007, the Board of Trustees established a Special Committee on Governance Review to re-examine the overall structure, effectiveness, and efficiency of the governance processes of the FAF, FASB, and GASB; to evaluate and plan for the future role of the FAF and FASB in a capital market environment moving toward a single set of global financial reporting standards; to evaluate and plan for the future funding and continuing role of the GASB; and to evaluate and plan for the ongoing and future role of the Board of Trustees in preserving the independence and promoting the effectiveness of private sector and governmental accounting standard setting. At a special meeting on February 26, 2008, the Board of Trustees approved a series of changes to the FAF's oversight role, operations and governance; the FASB's structure and operations; and the GASB's funding and operations. These changes included the following, among others:

- Expanding the breadth of individuals and organizations that are invited to submit nominations for the FAF Board of Trustees to include accounting, financial, investor, government, and other groups. Final authority for all appointments would rest solely with the Board of Trustees.
- Changing the term of service for Trustees from two three-year terms to one five-year term.
- Increasing the governance and oversight activities of the Trustees.
- Reducing the size of the FASB from seven members to five.
- Affirming the need for investor participation on the FASB by broadening the current by-law requirement that members possess investment experience.
- Providing the FASB Chair and the GASB Chair with decision-making authority to set the FASB and GASB technical agendas, respectively.
- Affirming the conviction that securing a stable and permanent funding source for the GASB is a matter of urgency for the FAF.

Corporate Governance Changes to Oversight, Structure, and Operations of the FAF, FASB, and GASB is available in full at <http://www.fasb.org/faf/FAFGovernanceResolutions02-27-08.pdf>.

Proposed Amendment to SOP 90-7

AICPA Statement of Position (SOP) 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, was issued in 1990 to provide guidance on financial reporting by entities that file petitions with a bankruptcy court and expect to reorganize as a going concern under Chapter 11 of Title 11 of the United States Code. Under SOP 90-7, entities meeting certain criteria are required to adopt fresh-start reporting. Paragraph 38 of SOP 90-7 requires changes in accounting principles that will be required in the financial statements of the emerging entity within the twelve months following the adoption of fresh-start reporting to be adopted at the time fresh-start reporting is adopted.

At the time SOP 90-7 was published, new accounting standards were being issued with effective dates that encouraged early adoption. However, in several recent standards, the Financial Accounting Standards Board (FASB) has prohibited early adoption. Questions have been raised as to whether an emerging entity that is applying fresh-start reporting should follow the provisions of SOP 90-7 in early adopting new accounting standards that will be effective within 12 months from the date of emergence from bankruptcy or whether the emerging entity should follow the effective date guidance of a new accounting standard when the new accounting standard prohibits early adoption.

The FASB has issued proposed FASB Staff Position (FSP) No. SOP 90-7-a, *An Amendment of AICPA Statement of Position 90-7*, which proposes to amend SOP 90-7 to nullify the requirement in paragraph 38 of SOP 90-7 regarding changes in accounting principles. If finalized, the amendment would require an entity emerging from bankruptcy that uses fresh-start reporting to only follow the accounting standards in effect at the date of emergence. The FSP would be effective for financial statements issued subsequent to the issuance date of the FSP.

The proposed FSP is available for comment until March 28, 2008 at http://www.fasb.org/fasb_staff_positions/prop_fsp_sop90-7-a.pdf

Public Sector

Standard Proposed for Fund Balance Reporting and Governmental Fund Type Definitions

Currently, there is diversity of practice in how fund balance is reported by state and local governments. The Governmental Accounting Standards Board therefore has issued a proposed Statement, Fund Balance Reporting and Governmental Fund Type Definitions, to address this diversity. The proposed Statement is intended to improve the usefulness of information provided about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

The Statement proposes establishing a hierarchy of fund balance classifications primarily based on the extent to which a government is bound to observe spending constraints imposed upon the use of resources reported in governmental fund balances. The proposal distinguishes fund balance between amounts that are considered “nonspendable,” such as fund balance associated with inventories, and “spendable,” such as fund balance associated with cash. The spendable category would be further broken down based on the relative strength of the constraints that control how specific amounts can be spent. From greatest to least constraint, the classifications of spendable fund balance would be restricted, limited, assigned, and unassigned.

The proposed Statement also would clarify the definitions of individual governmental fund types. It includes interpretations of certain terms within the definition of special revenue fund types, while modifying the debt service and capital projects fund types for clarity and consistency. The proposal also specifies how economic stabilization or “rainy-day” amounts would be reported.

If finalized, the proposed Statement would be effective for financial statements for periods beginning after June 15, 2010, with earlier implementation encouraged. The proposed Statement is available for comment until June 30, 2008 at http://www.gasb.org/exp/ed_fund_balance_reporting.pdf.

SEC

Management Certifications for Non-accelerated Filers - Reminder

Each report, including transition reports, filed with the SEC on Form 10-Q and Form 10-K, must include a certification in a specified form signed by the principal executive officer(s) and principal financial officer(s), or persons performing similar functions, at the time of the filing of the report. The exact wording for the certification can be found in Regulation S-K, Item 601(b)(31). In accordance with the SEC’s transition provisions, a company may omit the language regarding internal control over financial reporting from the certification until the requirements of Sarbanes-Oxley Section 404 are effective with respect to the company. A registrant subject to Section 404 must include all of the language exactly as required in the certification. A non-accelerated filer who provides “Management’s Report on Internal Control over Financial Reporting” for the first time will therefore need to revise/include paragraph 4(b) to read as follows:

- 4) The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and...
 - b) Have designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Registrants are urged to verify the appropriate wording of the certification with their legal counsel.

International

IASB Publishes Discussion Paper for Public Comment

The International Accounting Standards Board (IASB) has published for public comment a discussion paper on the distinction between equity financial instruments and other financial instruments (non-equity instruments). This discussion paper is the first stage of the IASB's project to improve and simplify the requirements in International Accounting Standard (IAS) 32, *Financial Instruments: Presentation*. Current requirements of IAS 32 are criticized for being difficult to apply and for resulting in inappropriate classification of some financial instruments.

The IASB's project is a modified joint project with the Financial Accounting Standards Board (FASB). In a modified joint project, one board leads the initial stage. The FASB led the research stage of this project and published a Preliminary Views document, *Financial Instruments with Characteristics of Equity*, in November 2007. (For information regarding the FASB's Preliminary Views document, see the December 11, 2007 edition of Insights.) The goal of the IASB's discussion paper is to solicit views on whether the proposals in the FASB's document are a suitable starting point for IASB deliberations. If the project is added to the IASB's active agenda, it would be undertaken jointly with the FASB.

The IASB's discussion paper will be available for comment until September 5, 2008 at <http://www.iasb.org/Home.htm>.

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