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Accountants and Consultants



Financial Reporting

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Year in Review

Significant 2000 Financial Reporting Developments

In 2000, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) dealing with derivatives and transfers of financial assets and a significant Interpretation on stock compensation. The FASB has also devoted a significant effort to prepare the financial community for the adoption of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which, for calendar-year reporting companies, became effective January 1, 2001. Also of significant note is what the FASB decided not to do (on a preliminary basis) with respect to accounting for goodwill and in developing new rules for consolidation. It has also issued a number of exposure drafts. In 2000, the Governmental Accounting Standards Board (GASB), the rule-making body for public sector and government entities, issued two final pronouncements on governmental reporting models and shared revenues.

In addition, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued two statements of position (SOPs) on motion picture accounting and demutualizations of insurance companies. The FASB's Emerging Issues Task Force (EITF) addressed and concluded on a number of focused practice issues, including instruments with beneficial conversion features, revenue recognition and presentation, and Web site development costs.

This letter summarizes the significant new and proposed rules considered by these bodies, as well as some of their other projects in process.

Hot Topics: Status of Controversial Exposure Drafts

Business Combinations and Intangible Assets

The original exposure draft (ED) on this topic was issued in September 1999, and significant, often rancorous, debates have evolved ever since. The first part of the ED addressed the method of accounting for business combinations and is an amendment of APB Opinion 16,

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Business Combinations. The second part addressed the accounting for intangible assets, including goodwill, and superseded APB Opinion 17, *Intangible Assets*. A summary of the ED was included in last year's *Year In Review* letter. The ED effectively would eliminate the use of the pooling of interests method in acquisitions, a conclusion which was unanimously reaffirmed by the FASB in January 2001 in the face of strong opposition voiced by a number of concerned industries and constituencies (along with their Congressional representatives). In December 2000, the FASB surprised the financial community with an announcement of its preliminary views that companies would no longer be required to amortize goodwill over its useful life, but rather it would be subjected to an impairment test. A revised ED, limited only to the new decisions on goodwill, was issued on February 14, 2001 just before we came to press with this letter. It has an extremely short 30-day comment period. The other parts of the 1999 ED were not re-exposed for comment. A final statement on the entire subject of business combinations, intangible assets and goodwill is expected in June 2001. The following is a summary of decisions reached by the Board after issuance of the 1999 ED, including those contained in the limited ED on goodwill:

Goodwill

- Goodwill should be tested for impairment at a reporting unit level, which is the lowest level of a company that is a business and that can be distinguished (physically, operationally and for reporting purposes) from its other activities, operations and assets. Normally, a reporting unit would be a lower level than a segment. Accordingly, goodwill related to long-lived assets to be held and used would no longer be allocated to those assets when they are tested for impairment under SFAS 121, *Accounting for the Impairment of*

Long-Lived Assets and for Long-Lived Assets to be Disposed of.

- In order for a company to develop and document its process for testing goodwill impairment, a benchmark assessment would be required whenever a reporting unit is created, the net assets of the unit are changed substantially due to an acquisition, or there is a reporting reorganization and goodwill is relatively significant. This assessment would involve identifying the valuation model to be used, documenting key assumptions and measuring the unit's fair value. If, after the benchmark assessment, the fair value of the reporting unit is less than its carrying amount, goodwill should be tested for impairment. A company would have one year to complete a benchmark assessment; a six-month limit would apply to reporting units that include goodwill at the date the new rules are adopted. However, if impairment indicators arise before those outside limits, goodwill should be subject to an earlier impairment test.
- The examples of events and circumstances that would trigger an impairment test were substantially expanded from the 1999 ED. Those examples included certain non-temporary declines in stock price and market capitalization. If these declines relate to a specific reporting unit, only that unit would need to be tested. Otherwise, all units should be tested.
- Goodwill should be considered to be impaired if its *implied* fair value is less than its carrying amount. Its implied fair value should be calculated by subtracting the fair value (with certain exceptions) of the recognized net assets of the reporting unit (excluding goodwill) from the fair value of the reporting unit. This is a residual calculation since it is impossible to directly

measure the fair value of goodwill.

- If a significant portion of a reporting unit is to be disposed of, an impairment review should be performed based on the fair value of the reporting unit and its recognized net assets (excluding the net assets to be disposed of). If that comparison results in a write-down of the reporting unit's goodwill, that impairment should be shown as part of the gain or loss on disposal.
- Fair value of an asset, liability or reporting unit is the amount at which the asset, liability or unit could be bought or sold in a current transaction between a willing buyer or seller. Quoted market prices in active markets are the best evidence of fair value. Absent that, other techniques include prices for similar assets and liabilities and probability-weighted discounted cash flows.
- In calculating negative goodwill arising on an acquisition, the allocation method would differ from that in APB 16. There would be no pro rata reduction assigned to inventory and certain other current assets because their values are more certain and near term built-in gains would be avoided.
- Goodwill should be separately disclosed on the face of the balance sheet. Impairment charges should be presented pre-tax as a separate line operating expense (unless associated with a disposition or a discontinued operation).

Non-Goodwill Intangibles

- Non-goodwill intangible assets should be recognized separately if: (1) control over the future economic benefits of the asset is obtained through contractual or other legal rights, regardless of their transferability; or (2) the asset is capable of being separated, divided and sold, transferred, licensed, rented or exchanged,

regardless of an intent to do so or whether there is a market for the assets.

- The non-goodwill intangible should be amortized over its estimated useful economic life and be periodically evaluated for impairment in accordance with SFAS 121. A 20-year maximum life is no longer proposed.
- An identifiable intangible asset with an indefinite useful life should not be amortized, regardless of whether it has an observable market, until its life is determined to be finite. It should be carried at the lower of its carrying amount or fair value and excluded from the scope of SFAS 121.

Disclosures

Disclosures should include, among other items, the cost of and reasons for the acquisition, the fair values assigned to identifiable assets and liabilities, the factors that caused a premium or discounted price to be paid for the acquisition resulting in goodwill or excess of net assets over purchase price respectively, and pro forma combined operating results. The proposal to disclose the book values of net assets acquired has been dropped.

The ED does not address the controversial area of accounting for in-process research and development costs that, under current guidance, are expensed at the acquisition date.

Transition and Effective Date

Pooling of interests treatment would be afforded to qualified business combinations "initiated" prior to the issuance of the final SFAS. The goodwill and intangible asset provisions would be effective for interim and annual reporting periods beginning after the final SFAS is issued. Those provisions would apply not only to goodwill and other intangible assets arising from acquisitions completed after the issuance date of the Statement, but also to those assets arising from prior acquisitions. Existing negative goodwill would be recognized as an

extraordinary item. The intangible asset provisions would apply to all acquired intangible assets, whether acquired singly, in a group, or as part of a business combination. Pro forma earnings disclosure would be required to reflect the reversal of pre-adoption goodwill amortization. Neither early adoption nor retroactive application would be permitted.

Consolidations

This ED was issued in February 1999, and attempted to establish guidelines on the varying degrees of control and other subjective criteria that would trigger consolidation treatment. "Control" was defined as the non-shared decision-making ability to direct the policies and management of another company. Presumptions of control include:

- A majority voting interest in the election of a company's governing body or a right to appoint a majority of the members;
- A large minority voting interest in the election of a company's governing body, relative to the widely dispersed ownership interests of others; and
- A unilateral ability to obtain a majority voting interest in the election of the company's governing body or a right to appoint a majority through present ownership of convertible securities, or other rights that are currently exercisable at the option of a holder and the expected benefits from exercising those securities exceeds the cost.

The FASB had also tentatively decided to address separately those entities with specific limits on their powers ("SPEs").

However, in January 2001, certain members of the FASB had reservations about how specific provisions of the proposal would operate. Due to this lack of support, the Board determined not to proceed at this time with either a final statement on consolidation

policy or a proposal on SPEs. However, the Board believes that additional guidance on consolidation matters is desirable and has asked the FASB staff to reassess the approach for providing that guidance. Such assessment is expected to be completed in the third quarter of 2001.

Final FASB Pronouncements

Accounting for Derivative Instruments and Hedging Activities (SFASs 133, 137 and 138)

As we reported last year, the FASB has issued SFAS 133 which, as amended by SFAS 137, is effective for fiscal quarters of fiscal years beginning after June 15, 2000. This Statement provides consistent accounting and reporting standards for (a) derivative instruments, including embedded instruments (i.e., instruments that are an integral part of other contracts, such as debt with an equity conversion option), and (b) hedging activities. It requires all companies to recognize derivative contracts as either assets or liabilities in the balance sheet at fair value, based on the measurement guidance contained in SFAS 107, *Disclosures about Fair Value of Financial Instruments*.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Has one or more underlyings and either one or more notional amounts or payment provisions, or both. An underlying is a variable on which the derivative instrument is based, such as a specified interest rate, security price, commodity price or foreign exchange rate. A notional amount is simply the number of units specified in the derivative instrument. The units can be: a currency, such as the U.S. dollar or French franc; an agricultural measure, such as bushels of wheat, ears of corn or pounds of

cotton; or any other items as may be specified in the instrument.

- Requires no initial investment or an initial investment less than would be required for other types of contracts expected to have a similar response to changes in market factors.
- Requires or permits net settlement terms, can readily be settled net by a means outside the contract, or provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Some of the more common types of derivative instruments include options, futures, forwards and interest rate swaps. Certain contracts, such as bonds, insurance policies and leases, do not in their entirety meet the definition of a derivative instrument and, therefore, are not, in themselves, subject to SFAS 133. However, companies will still need to analyze such contracts, as they may contain "embedded" derivative instruments, which need to be separated from the "host" contract and accounted for under the provisions of SFAS 133 if certain conditions are met.

Amendments to SFAS 133

During 2000, the FASB amended SFAS 133 (through the issuance of SFAS 138) in areas relating to normal commodity contracts, risk of changes in benchmark interest rates, foreign currency denominated assets and liabilities, and intercompany derivatives.

Documentation Requirements

In order to qualify a derivative for hedge accounting, SFAS 133 requires companies to document the: (1) identification of the hedging instrument and the hedged item or transaction; (2) the nature of the risk being hedged; (3) the risk management objective or strategy; and (4) how the hedge's effectiveness will be assessed.

The effectiveness of the hedge must be assessed at its inception and revisited, at a minimum, on a quarterly basis. Derivative instru-

ments must be highly effective (correlation of at least 80%) to continue to qualify for hedge treatment. To the extent that all or even a portion of the hedge is ineffective, the unrealized gain or loss should be included in earnings.

Effective Date

Initial application of SFAS 133 should be as of the beginning of a company's fiscal quarter. For SEC-reporting companies, SAB 74 requires registrants to discuss in their financial statements and MD&A the potential effects of adopting accounting guidance that has been issued but has not yet been adopted, unless the impact on the financial statements is not expected to be material.

Other Sources

To aid in the implementation stages of this standard, the FASB's Derivatives Implementation Group has posted extensive guidance, in question and answer form, on the FASB Web site (www.fasb.org). In addition, our Firm has published *Derivative Instruments and Hedging Activities: What Management Needs to Know about the New Accounting Rules*, which provides an executive summary and overview of implementation issues. This publication can be obtained by contacting any BDO office or by downloading the document through our Web site (www.bdo.com) under the "In The News/Thought Leadership" section.

Stock Compensation

To clarify numerous practice issues in applying APB 25, *Accounting for Stock Issued to Employees*, the FASB issued Interpretation 44 (FIN 44), *Accounting for Certain Transactions Involving Stock Compensation*. The Interpretation does not affect the fair value method of measuring stock compensation introduced in SFAS 123. Twenty separate questions were covered in this guidance; the more notable conclusions reached were:

Definition of Employee

The common law definition of employee should generally be used for purposes of applying APB 25. Therefore, independent contractors

would not qualify. An exception to the common law employee definition has been made for options or awards granted to a nonemployee member of the board of directors for services provided as a director if the director (a) was elected by the shareholders, or (b) was appointed to a position on the board that will be filled by a shareholder election when the existing term for that position expires. It should be noted that if directors render other non-board services (e.g., legal, loan guarantees, etc.), the independent contractor guidelines apply.

Modifications to a Fixed Stock Option or Award

There are accounting consequences for a modification to a fixed stock option or award that: (1) renews or extends the award's life (e.g., acceleration of vesting) or provides for a renewal or extension if a specified future separation from employment occurs (e.g., death or disability); (2) reduces the award's exercise price (commonly called "repricing"); or (3) increases the number of shares to be issued under an award, including the addition of a feature that provides for a new award to be granted automatically when an existing award is exercised if specified conditions are met (commonly called a reload feature)

Renewals or Extensions of the Award's Life

A modification that renews or extends the award's life results in a new measurement of compensation cost as if the award were newly granted.

A modification, including a modification that depends on a specified future separation from employment, that extends the award's maximum contractual life results in a new measurement of compensation cost at the modification date. For any employee who could benefit from the modification, any intrinsic value at the modification date that exceeds the amount measured at the original measurement date is reported as compensation cost either over the remaining future service period if the award is

unvested, or immediately if the award is vested.

A modification that increases the award's life upon separation from employment, but not beyond the original maximum contractual life, results in an extension of that award at the date of separation. In this case, the award's intrinsic value is measured at the modification date and any intrinsic value, at that date, that exceeds the amount measured at the original measurement date is reported as compensation cost upon the occurrence of the separation event, unless the award vests and is exercised before the separation event.

A modification that accelerates an award's vesting or provides for acceleration if certain conditions are met, effectively results in that award's renewal if the modification enables an employee to vest in an award that, under the original terms, would have expired. In this case, the award's intrinsic value is measured at the modification date and any intrinsic value at that date that exceeds the amount measured at the original measurement date is recognized as compensation cost since, had it not been for the acceleration, the award would have expired.

Reductions in the Exercise Price

If a modification directly or indirectly reduces an award's exercise price, the award is accounted for as variable from the modification date until the date the award is exercised, forfeited, or expires unexercised.

For this purpose, exercise price is considered reduced if the fair value of the consideration required to be remitted by the grantee upon exercise is less than, or potentially less than, the fair value of the consideration required to be remitted under the award's original terms. Examples in which the exercise price is considered reduced are: (1) grantor provides grantee with a cash bonus arrangement that vests (is paid) only if the option award is exercised; (2) grantor allows the grantee to exercise the option award with a full-recourse note that

does not bear a market interest rate; (3) grantor agrees to reduce the exercise price if a certain earnings target or stock price is achieved in the future; and (4) grantor cancels or settles for cash or other consideration an outstanding option award, while also granting a replacement award at a lower exercise price, either before or after the cancellation (settlement). Variable accounting, as discussed elsewhere in this section, applies if such a replacement award is granted within (a) the period prior to the date of cancellation (settlement) that is the shorter of six months or the period from grant date of the cancelled (settled) option, and (b) the period ending six months after the cancellation (settlement) date.

Because of the onerous effect of variable accounting, few companies are expected to reprice options in a simple manner, unless there is a substantial business reason for doing so (e.g., retaining key employees).

Example Involving a Modification to Reduce Exercise Price

Company B grants fixed stock options to its employees. The exercise price of each option equals the quoted market price of the stock on the grant date. All options "cliff vest" at the end of four years and have a maximum life of 10 years. Information about the stock options granted to Employee A on January 1, 2000, follows:

Options granted	1,000
Stock price	\$20 per share
Exercise price	\$20 per option

On January 1, 2002, the quoted market price of Company B's stock has decreased to \$15 per share. Company B modifies the award held by Employee A to reduce the award's exercise price to \$15 per option. Variable accounting is required for the 1,000 options from January 1, 2002 (the date of the modification), until the date the options are exercised, forfeited, or expire unexercised.

Increase in the Number of Shares to Be Issued

If a modification increases the number of shares to be issued, including the addition of a reload feature, the award is accounted for as variable from the modification date to the date the award is exercised, forfeited, or expires unexercised.

Recognition and Measurement of Compensation Cost

Compensation cost is recognized and measured as follows:

If a fixed stock option or award is cancelled or modified such that a new measurement of compensation cost or variable accounting is required, total compensation cost is measured as the sum of (a) any intrinsic value of the award at the original measurement date, and (b) the amount by which the intrinsic value of the modified (or variable) award exceeds the lesser of (1) the intrinsic value of the award at the original measurement date or (2) the intrinsic value immediately prior to the modification.

The total compensation cost is reported over the remaining vesting (service) period, unless the award is fully vested at the modification date, in which case the total compensation cost is reported immediately. Compensation cost for an unvested award that is forfeited because an employee failed to fulfill an obligation is reduced to zero, by decreasing compensation cost, in the period of the forfeiture.

Additional compensation, measured as of the modification date, is reported for all awards that were modified to accelerate vesting or extend the award's life upon a specified future separation from employment (but not beyond the award's original maximum contractual life). Estimates and adjustments of such estimates in subsequent periods may be required.

If a modification (including a modification through a cancellation and a replacement grant) requires variable accounting for the modified (replacement) award, compensation cost should be adjusted for changes in the intrinsic value of the modified (replacement) award in subsequent periods until that

award is exercised, forfeited, or expires unexercised. However, compensation cost should not be adjusted below intrinsic value of the modified stock option or award at the original measurement date, unless the award is forfeited because the employee fails to fulfill an obligation.

If cash is paid to an employee to settle an outstanding stock option, to settle an earlier grant of a stock award within six months after vesting, or to repurchase shares within six months after an option is exercised or the shares are issued, total compensation cost is measured as the sum of (a) any intrinsic value of the stock option or award at the original measurement date, and (b) the amount of cash paid to the employee (reduced by any amount paid by the employee to acquire the shares) that exceeds the lesser of (1) the intrinsic value of the award at the original measurement date or (2) the intrinsic value immediately prior to the cash settlement.

Share Repurchase Features

The accounting for share repurchase features (e.g., a put, a call or a right of first refusal) generally depends on whether the company is public or nonpublic. "Public" companies are those (a) whose securities are publicly traded in a domestic or foreign market, (b) that have filed with a regulatory agency in preparation to sell equity securities to the public, or (c) which are controlled by an entity meeting (a) and (b).

Public Companies

The accounting by public companies is as follows:

Except for shares expected to be repurchased at fair value on option exercise or share issuance only to meet tax withholding requirements, variable accounting is required for a stock option or award with a share repurchase feature if the shares are expected to be repurchased within six months after the option is exercised or the shares are issued ("six-month period"). This includes options or awards that contain repurchase features that give the employee the right to sell the

shares back to the company and the right can be exercised within the six-month period, as well as repurchase features that give the employee the right to sell the shares back to the company (after the option is exercised or shares are issued) for a premium that is not fixed and determinable over the then-current stock price, even if the shares cannot be sold back within the six-month period.

If a share repurchase feature gives the employee the right to sell the shares back to the company for a fixed-dollar amount over the stock price, but not within the six-month period, the premium is recognized as additional compensation cost over the vesting period.

A subsequent repurchase of shares by the company beyond the six-month period is accounted for as treasury stock, rather than as part of the original option or award.

A subsequent repurchase of shares by the company within the six-month period that had not been expected by the company is accounted for as a cash settlement of an earlier grant, which is discussed in the immediately preceding section.

Nonpublic Companies

Nonpublic companies are not required to apply variable accounting for a stock option or award when: (a) the stated share repurchase price equals the fair value of the shares at the date of repurchase (the employee cannot require the company to repurchase the shares within six months of option exercise or share issuance, and the shares are not expected to be repurchased within six months after exercise or share issuance); (b) the stated share repurchase price is other than the fair value of the shares at the date of repurchase (e.g., under a book value plan), and the employee has made a substantial investment and must bear the risks and rewards normally associated with share ownership for a reasonable period (at least six months); or (c) shares expected to be repurchased are only to meet tax withholding requirements.

For purposes of an award that contains a repurchase feature at

other than fair value, an employee is considered to have made a substantial investment when the employee invests (in a form other than services rendered to the company) an amount equal to 100% of the stated share repurchase price calculated at the grant date. Accordingly, if the award is an option, a substantial investment cannot exist before that option is exercised, and compensation cost is recognized (as the award is variable) for any intrinsic value of the option from the grant date to the date a substantial investment has been made.

Business Combinations

There are no accounting consequences for an exchange of stock options in a business combination accounted for under the *pooling-of-interests method*, provided: (1) the aggregate intrinsic value of the options immediately after the exchange is not greater than the intrinsic value immediately before the exchange; and (2) the ratio of the exercise price per option to the market value per share is not reduced.

In a *purchase* business combination, the fair value of options granted by the acquirer in exchange for outstanding options of the target company should be included as part of the consideration paid to acquire the target company. However, to the extent that service is required after the consummation date to vest in the awards, a portion of the intrinsic value of the unvested awards at that date should be (1) deducted from the fair value of the awards included in the purchase price, (2) allocated to unearned compensation, and (3) recognized as compensation cost over the remaining future vesting (service) period.

Grant Date

Awards made under a plan that is subject to shareholder approval should not be deemed granted until that approval is obtained, unless the approval is essentially a formality (e.g., if management and the members of the board of directors control enough votes to approve the plan).

Deferred Tax Assets

Deferred tax assets recognized for a temporary difference related to a stock option or award accounted for under APB 25 should not be adjusted for a subsequent decline in the stock price.

Such deferred tax assets should be determined by reference to the compensation expense recognized for financial reporting rather than to the expected future tax deduction (which would be estimated using the current intrinsic value of the award). A valuation allowance to reduce the carrying amount of those deferred tax assets would be established only if the company expects future taxable income to be insufficient to recover the deferred tax assets in the periods in which the deduction would otherwise be recognized for tax purposes.

Subsequent Guidance

The SEC staff has submitted a number of questions to the EITF for guidance on interpretations of FIN 44. Through January 2001, the EITF has issued a number of consensus positions on certain narrowly focused stock compensation questions, and will address the balance of these questions in future meetings. The SEC staff has also commented in EITF Topic D-93 on the accounting consequences of a rescission of option exercises.

Effective Date and Transition

The new rules were effective July 1, 2000 and, except as noted in the following two paragraphs, are to be applied prospectively to new awards, exchanges of awards in a business combination, modifications to existing awards and changes in grantee status that occur on or after that date. While the Interpretation is silent on whether it may be adopted early, we were informed by a FASB staff member that early adoption was not permitted.

The new rules for determining who meets the definition of an employee and for modifications to directly or indirectly reduce an award's exercise price apply to new awards or modifications after December 15, 1998. The new rules for modifications of existing awards

to add a reload option feature apply to modifications after January 12, 2000. If any of these events occurred before July 1, 2000, no adjustments could be made to financial statements for periods before that date. Additional compensation cost measured on initial application that is attributable to periods before July 1, 2000 should not be recognized.

In addition, the initial application of the new rules for existing awards to the nonemployee members of a company's board of directors, if previously accounted for as awards to nonemployees under SFAS 123, should be reported as a cumulative effect of a change in accounting principle, as described in APB 20, *Accounting Changes*.

SFAS 140 – Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - A Replacement of FASB Statement No. 125

After SFAS 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, was issued in 1996, there were a number of questions on its meaning and application. To the extent that the inquiries involved implementation matters, the FASB published – and is in the process of publishing – special reports and staff guides containing the questions it has received and the answers it has given. However, because various conclusions on SFAS 125 needed to be amended, the FASB issued SFAS 140 which revised certain conclusions regarding transfers of financial assets, by modifying criteria and guidance for determining whether the transferor has relinquished control of assets and the transfer is, therefore, accounted for as a sale.

Among other things, SFAS 140 amends SFAS 125 in a number of areas. It establishes new conditions for an entity to be considered a qualifying special-purpose entity (SPE), a major requirement in determining whether the transfer qualifies as a sale. A qualified SPE must have at least 10% of its beneficial interests held by parties other than the trans-

feror. SFAS 140 requires that for a transfer to a qualified SPE to qualify for a sale, the transferor cannot retain effective control over assets transferred through removal-of-accounts provisions, liquidation provisions or other arrangements. Financial assets sold to a qualifying SPE, and related beneficial interests, should be excluded from the consolidated financial statements of the transferor, servicer or sponsor.

The SFAS also clarifies guidance on the effects of transferors' rights to repurchase transferred assets, and excludes certain transfers of financial assets measured using the equity method of accounting. A company with securitized financial assets is required to disclose accounting policies, volume, retained interests, cash flows, and key assumptions made in determining fair values of retained interests, and sensitivity analyses of those fair values to changes in key assumptions.

A "secured party" that has the right to sell or re-pledge collateral is required to recognize, as an asset, the value of a right to use that collateral.

Effective Date

SFAS 140 is effective (a) for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, and (b) for balance sheet recognition and reclassifications of collateral and related disclosures for fiscal years ending after December 15, 2000. Disclosures are not required for prior periods in comparative financial statements.

FASB Concepts Statement No. 7 – Using Cash Flow Information and Present Value in Accounting Measurements

Concept Statements are not authoritative GAAP statements, but from time to time, the FASB uses this forum to describe concepts and outline guidance that will serve as the basis for setting new accounting standards and practices.

With cash flow becoming a more prevalent ingredient in measuring assets and liabilities, the FASB

issued Concepts Statement No. 7, which, among other things, establishes a framework for using future cash flows as the basis for accounting measurements and guidelines by applying present value techniques.

Other FASB Proposals

Impairment of Long-Lived Assets and Disposal Issues

In June 2000, the FASB issued an ED to address impairment issues arising after the issuance of SFAS 121 and to eliminate inconsistencies in various parts of the accounting literature.

Among the conclusions addressed in the ED are:

Assets to Be Held and Used

An asset held and used should be considered impaired when its carrying amount is not recoverable and exceeds its fair value. In that regard, impairment losses should be recognized only when an asset's carrying amount exceeds the sum of its undiscounted future cash flows from the use of the asset and eventual sale.

Examples of conditions that trigger an impairment would now include a more-likely-than-not expectation that an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

Assets to Be Disposed of

- To harmonize inconsistencies in the literature, a single accounting model would be developed for assets to be disposed of and for certain disposal obligations.
- Liabilities associated with a formal plan to sell or abandon assets or exit a business (e.g., closing plant facilities) should be recorded when they are incurred, rather than in the period that the plan is adopted by management. For example, if under a severance agreement, employees are required to render services until they are formally terminated, a liability for the benefits (assuming they have been communicated to the

individuals) should be recognized as the employees render services, even if the benefits are based on length of past service. This represents a modification from current practice under EITF Issue 94-3.

- Lease termination costs should be accrued ratably over the lease utilization period.
- An asset to be disposed of, other than by sale, should continue to be classified as held-for-sale (and depreciated) until its disposition.

Assets Held for Abandonment

When an entity commits to a plan to abandon an asset before the end of its previously estimated useful life, depreciation estimates should be revised to reflect the use of the asset over that shortened period. When the asset ceases to be used, the asset that will be abandoned should be reported at the lower of its carrying amount or fair value less costs to abandon, generally its salvage value. The resulting carrying amount should not be less than zero.

Assets to Be Exchanged for a Similar Productive Asset or Distributed to Owners in a Spin-Off

An asset that will be exchanged for a similar productive asset or distributed to owners in a spin-off should be reported at the lower of its carrying amount or fair value and, if necessary, an impairment loss recognized.

Assets Held-for-Sale

An asset should be classified as "held-for-sale," when management, having the authority to approve the action, has committed to a plan to sell the asset and certain other criteria are met. It should be reported at the lower of its carrying amount or fair value, less cost to sell. Any such asset should not be depreciated or amortized. If the held-for-sale criteria are satisfied after the balance sheet date (but prior to the issuance of financial statements), the asset should be classified as "held and used" at the balance sheet date.

The accounting and reporting provisions of APB 30, which

addresses reporting for discontinued operations, would be superseded, including its definition of a segment. In its place, the proposal would expand discontinued operations treatment beyond separate major lines of business or class of customer to include all components of a company: (a) that have either been disposed of by sale or otherwise are classified as held-for-sale; (b) whose activities, operations and assets are significant to the company and can be clearly distinguished, physically and operationally and, for financial reporting purposes, from the other activities, operations and assets of the company; and (c) whose assets would be eliminated in the disposal. For example, a formal plan to close all retail stores in a specific geographic area and sell the related assets and cease operations in that area would qualify as a discontinued operation. Conversely, a decision to close or sell the same retail stores, but to continue to sell the same products in that area through a different distribution channel, would not qualify because the revenues associated with the product sales would not be eliminated.

While the ED would maintain the discontinued operations income statement classification, losses from discontinued operations would be recognized only when they *occur*, as opposed to the current practice of accruing at the measurement date estimated losses through disposal.

Only liabilities directly associated with those assets that a potential buyer would reasonably be expected to assume (e.g., environmental, asset retirement obligations that transfer with the asset, warranty obligations affecting customer relationships, and assumable below-market debt) should be included as part of the asset group. Results of operations during the holding period should not be accrued up front but rather should be reported in the period in which they occur.

The aggregate assets and liabilities of a group should be presented separately in the asset and liability sections of the balance sheet.

Effective Date

The majority of the provisions of this ED would be effective for fiscal years beginning after December 15, 2001, and interim periods within those years. Early application is encouraged.

The provisions related to assets to be disposed of by sale or otherwise and for obligations associated with disposal activities would generally be effective for disposal activities initiated by a company's commitment to a plan after initial adoption. Previously issued balance sheets presented for comparative purposes would be reclassified to present an asset classified as held-for-sale. Otherwise, restatement of previously issued financial statements is not permitted.

Asset Retirement Obligations (ARO)

In February 2000, the FASB issued a revised exposure draft regarding accounting requirements for obligations associated with the retirement of tangible long-lived assets. The FASB has decided that the expected cost to retire a tangible long-lived asset should be capitalized as part of that asset's historical cost and a liability reported for that additional cost (measured at fair value) when it is legally enforceable. The ARO liability would be remeasured periodically to recognize interest expense and changes in estimated cash flows.

A final SFAS is expected to be released in the second quarter of 2001 and would be effective for fiscal years beginning after June 15, 2001. A "cumulative effect" approach would be used to recognize transition amounts for ARO liabilities and asset retirement costs.

Financial Instruments With Characteristics of Liabilities and/or Equity

This ED, issued in October 2000, proposes a major change in accounting for and reporting of financial instruments that have characteristics of both liabilities and equity (e.g., convertible debt) and minority interests in less-than-wholly-owned subsidiaries.

Drawing upon a new technical definition of liability, the ED's conclusions include the following:

- A financial instrument should be separated into components – those with characteristics of a liability presented separately from those with equity characteristics. Components should be classified as follows:
 - a. A component that represents an outstanding portion of the company's stock that does not impose an obligation on the company's part should be classified as equity.
 - b. A component that imposes an obligation that requires (or permits, at the company's discretion) settlement by issuance of equity shares should be classified as equity if any change in the obligation's monetary value is attributable to and equal to the change in fair value of a fixed number of the issuer's equity shares, and the monetary value of the obligation changes in the same direction as the change in the fair value of the underlying equity shares.
 - c. All other components embodying obligations should be classified as liabilities.
- With certain exceptions, the proceeds received from the issuance of an instrument should be allocated between its components based on the relative fair values of those components.
- Costs incurred in connection with the issuance of a financial instrument (e.g., underwriting fees) should be accounted for as a reduction of the total proceeds before such proceeds are allocated to the various components.
- Minority interests in less-than-wholly-owned subsidiaries should be presented as a separate line item in the equity section of a company's consolidated balance sheet rather than

shown between the liabilities and equity sections, which is current practice for companies.

- Any gain or loss on the liability component of convertible debt should be recognized in earnings when the debt is repaid or converted into equity.
- Sales of a subsidiary's shares to companies outside the consolidated group should be considered equity transactions as long as the subsidiary remains consolidated (i.e., no gain or loss should be recognized on those sales). For a sale of a subsidiary's shares that results in the subsidiary no longer being consolidated, a gain or loss should be recognized for the difference between the proceeds of the sale and the carrying amount of the interest sold.
- For companies with any less-than-wholly-owned subsidiaries, amounts displayed as line items in the income statement and amounts displayed as components of other comprehensive income should include amounts attributable to both the parent's and minority interests.
- In calculating earnings per share, a company should not adjust the numerator of the earnings-per-share calculation for any increase or decrease to additional paid-in capital related to a sale of a subsidiary's shares that decreases or increases the parent's proportionate ownership interest.

Effective Date and Transition

The ED would be effective for fiscal years beginning after June 15, 2002, with earlier adoption permitted, and would initially be applied as of the beginning of a company's fiscal year. Restatement generally would be required for all prior-year financial statements.

Other FASB Projects

New Basis – Joint Ventures

In connection with a separate phase of the Business Combinations pro-

ject discussed earlier, the FASB, in December 2000, discussed the appropriateness of adopting a new basis of accounting in the formation of a joint venture. The Board tentatively concluded that a change in ownership from unilateral control to shared control should result in a new basis of accounting in the financial statements of the jointly controlled entity.

The Board also tentatively decided that an entity that exchanges appreciated (or previously unrecognized) assets for an equity interest in a joint venture should recognize a gain on the assets exchanged. Deliberations will continue in the first quarter of 2001.

Combinations of Not-For-Profit Organizations

The FASB undertook a separate project on Combinations for Not-For-Profit (NFP) organizations with the approach that APB Opinion 16, as amended by the Business Combinations ED referred to earlier, should also apply to NFP organizations unless a circumstance unique to those combinations would justify a different accounting treatment. That approach is referred to as the "differences-based" approach.

In general, the scope of the project will include combinations between two or more NFP organizations and acquisitions of a for-profit business by a NFP organization. A separate ED will address all NFP matters, including acquisitions of a NFP by a for-profit business. An ED is expected in the third quarter of 2001.

AcSEC Activities

AICPA Statements of Position (SOP) Accounting by Producers and Distributors of Films (SOP 00-2)

In August 2000, AcSec published SOP 00-2 which presents accounting practices for films, television series and related products that are sold, licensed or exhibited in various broadcast media (film, digital, video tape, etc.) This SOP takes the place of the previously issued guidance in SFAS 53, which was concurrently

withdrawn by the FASB. Sales and licensing revenue should be recognized only when all of the following conditions are met: (1) persuasive evidence of a sale or licensing arrangement with a customer exists; (2) the film is complete and, in accordance with the terms of the arrangement, either has been delivered or is available for unconditional and immediate delivery; (3) the license period of the arrangement has begun, and the customer can begin its exploitation, exhibition or sale; (4) the arrangement fee is fixed or determinable; and (5) collection is reasonably assured.

The costs of producing a film and bringing that film to market consist of production, exploitation, participation and manufacturing costs. Capitalized costs can also include an appropriate level of interest costs, as permitted under SFAS 34. Production and capitalized participation costs are to be amortized or accrued using the "individual-film-forecast" computation method in which capitalized costs, including those accrued, are multiplied by a fraction in which current period revenue is divided by estimated remaining revenue as of the beginning of the fiscal year. The present value of participation costs would be accrued only when their payment is probable. Advertising should be accounted for under SOP 93-7, *Reporting on Advertising Costs*. All other exploitation costs should be expensed as incurred. Manufacturing/duplication costs should be charged to expense on a unit-specific basis when the related product is sold.

The SOP is effective for fiscal years beginning after December 15, 2000, with earlier application encouraged. Companies should reflect the adoption of SOP 00-2 as a cumulative effect of a change in accounting principle. Prior period financial statements should not be restated.

Accounting by Insurance Enterprises for Demutualizations (SOP 00-3)

This SOP was issued in December 2000 and provides guidance on

accounting by insurance companies for a change from a mutual company to a stock company and for the formation of new holding companies. It also applies to stock insurance companies that apply SOP 95-1 on insurance activities. The SOP applies to past or future demutualizations or formations of holding companies. For demutualizations/formations that occur after December 31, 2000, the SOP is effective on the transaction date; for prior demutualizations/formations, retroactive restatement and/or reclassification of prior financial statements is required.

Proposed SOP, Accounting for Investors' Interests in Unconsolidated Real Estate Investments

This proposed SOP provides guidance on accounting for investors' interests in unconsolidated real estate investments and would replace SOP 78-9, *Accounting for Investments in Real Estate Ventures*. In practice, SOP 78-9 has been more broadly applied to investments in other than real estate, so the AICPA specifically invited comments from those whose interests lie outside of real estate.

According to the SOP, an investor holding an equity investment in an investee would have to apply the equity method if it has the ability to exercise significant influence, unless the investment is non-voting common stock or nonredeemable preferred stock with a readily determinable fair value, in which case SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, would apply.

Investors in a "specific ownership account" entity (e.g., LLCs, LLPs, limited and general partnerships) would be required to account for their interests using either: (a) a fair value approach if a readily, determinable fair value exists for the interests; or (b) the equity method of accounting. If the entity is not a specific ownership account type, an evaluation of whether the cost or equity basis of accounting applies is necessary.

A balance sheet-oriented approach would be introduced in applying the equity method - the hypothetical liquidation at book value method (HLBV). The HLBV is calculated as the amount of cash the investor would receive or be obligated to fund, if the investee liquidated its GAAP-measured assets and distributed the proceeds to creditors and investors based on their respective basis of priority.

The period-to-period change in HLBV would be the investor's share of earnings or losses of the investee. An investor would have to report a negative investment (in effect, a liability), only to the extent it has a legal obligation as a general partner, outstanding guarantees, other funding commitments or when the investee's imminent return to profitability seems to be assured.

The provisions of this SOP would be effective for fiscal years beginning after December 15, 2001, with early adoption encouraged. Adoption of this provision would be accounted for as a cumulative effect of a change in accounting principle.

EITF Activities

Through January 2001, the EITF reached consensus positions on the following focused issues:

- Determining Whether a Non-monetary Transaction Involves Receipt of Productive Assets or of a Business (98-3)
- Accounting for Contingent Rent (98-9)
- Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations (98-11)
- Determination of the Measurement Date for the Market Price of Acquiror Securities Issued in a Purchase Business Combination (99-12)
- Accounting for Transactions with Elements of Research and Development Arrangements (99-16)
- Accounting for Advertising Barter Transactions (99-17)
- Reporting Revenue Gross as a

Principal Versus Net as an Agent (99-19)

- Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets (99-20)
- Investor Balance Sheet and Income Statement Display Under the Equity Method for Investments in Certain Partnerships and Other Ventures (00-1)
- Accounting for Web Site Development Costs (00-2)
- Application of AICPA Statement of Position 97-2, *Software Revenue Recognition*, to Arrangements That Include the Right to Use Software Stored on Another Entity's Hardware (00-3)
- Majority Owner's Accounting for a Transaction in the Shares of a Consolidated Subsidiary and a Derivative Indexed to the Minority Interest in That Subsidiary (00-4)
- Determining Whether a Non-monetary Transaction Is an Exchange of Similar Productive Assets (00-5)
- Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in, the Stock of a Consolidated Subsidiary (00-6)
- Application of EITF Issue No. 96-13 to Equity Derivative Transactions That Contain Certain Provisions That Require Net Cash Settlement if Certain Events Outside the Control of the Issuer Occur (00-7)
- Accounting by a Grantee for an Equity Instrument to be Received in Conjunction With Providing Goods or Services (00-8)
- Classification of a Gain or Loss From a Hedge on Debt That Is Extinguished (00-9)
- Accounting for Shipping and Handling Fees and Costs (00-10)
- Accounting by an Investor for Stock-Based Compensation Granted by an Investor to Employees of an Equity Method Investee (00-12)
- Determining Whether Equipment Is "Integral Equipment" Subject to FASB Statements

No. 66, *Accounting for Sales of Real Estate*, and No. 98, *Accounting for Leases* (00-13)

- Accounting for Certain Sales Incentives (00-14)
- Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company Upon Exercise of a Nonqualified Employee Stock Option (00-15)
- Recognition and Measurement of Employer Payroll Taxes on Employee Stock-Based Compensation (00-16)
- Measuring the Fair Value of Energy-Related Contracts in Applying EITF Issue No. 98-10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* (00-17)
- Determination of Whether Share Settlement is Within Control of the Company for Purposes of Applying EITF Issue No. 96-13 (00-19)
- Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future (00-22)
- Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation* (00-23)
- Application of EITF Issue No. 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, to Certain Convertible Securities (00-27)
- Accounting for a Convertible Instrument Granted or Issued to a Nonemployee for Goods or Services or a Combination of Goods or Services and Cash (01-01)

The EITF is also deliberating on a number of issues, including revenue recognition and related income statement classification, loyalty programs and derivatives.

In addition to observations made on regular EITF agenda items, the SEC staff also commented about the following matters

through January 2001:

- Topic D-84: Accounting for Subsequent Investments in an Investee After Suspension of Equity Method Loss Recognition When an Investor Increases Its Ownership Interest from Significant Influence to Control Through a Market Purchase of Voting Securities
- Topic D-85: Application of Certain Transition Provisions in SEC Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*
- Topic D-86: Issuance of Financial Statements
- Topic D-88: Planned Major Maintenance Activities
- Topic D-90: Grantor Balance Sheet Presentation of Unvested, Forfeitable Equity Instruments Granted to a Nonemployee
- Topic D-93: Accounting for the Rescission of the Exercise of Employee Stock Options

The FASB staff also made announcements about the following matters during 2000:

- Topic D-87: Determination of the Measurement Date for Consideration Given by the Acquiror in a Business Combination When That Consideration is Securities Other Than Those Issued by the Acquiror
- Topic D-89: Accounting for Costs of Future Medicare Compliance Audits
- Topic D-91: Application of APB Opinion No. 25 and FASB Interpretation No. 44 to an Indirect Repricing of a Stock Option
- Topic D-92: The Effect of FASB Statement No. 135 on the Measurement and Recognition of Net Periodic Benefit Costs Under FASB Statements No. 87 and No. 106

SEC registrants may wish to monitor EITF deliberations even when no consensus is reached, since SEC staff positions are often

discussed at the meetings. Those interested in obtaining more information about issues addressed by the EITF can subscribe to the EITF Abstracts (available in loose-leaf or CD-ROM format or through the purchase of soft-cover publications). These publications, which provide a summary of each EITF matter along with its resolution or other status, are available through the FASB's order department at (800) 748-0659 or online at www.fasb.org.

Final GASB Pronouncements

Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34)

This Statement issued in 1999 will require a comprehensive overhaul of the current reporting process, with the focus in reporting shifting from that of "funds flow" to that of a corporate-style format.

The new model calls for financial statements to be integrated with government-wide reporting and enhanced fund reporting, and requires an accompanying MD&A. The GASB also recently published various implementation guides to assist the public sector in applying this guidance, and will augment this information in future publications.

The model's most dramatic change relates to the handling of government-wide reporting, bringing together government activities, business-type activities and discretely presented component units. Each is to be reported with a flow-of-economic-resources measurement focus and reflect the accrual basis of accounting. This is a major step because, until now, governments followed only the modified-accrual basis. The change is important to potential lenders and taxpayers because of the need to capitalize and depreciate general capital assets.

The implementation date for GASB 34 will vary depending upon a

government's size. Size, for this purpose, will be calculated based on the total defined annual revenues of the primary government's governmental and enterprise funds in the first fiscal year ending after June 15, 1999. Implementation is scheduled in three phases, as follows (however, early adoption for all size entities is permitted):

- Governments with total revenues of \$100 million or more will be required to adopt for fiscal years beginning after June 15, 2001.
- Governments with total revenues of \$10 million or more, but less than \$100 million, will be required to adopt for fiscal years beginning after June 15, 2002.
- Governments with total revenues of less than \$10 million will be required to adopt for fiscal years beginning after June 15, 2003.

Recipient Reporting for Certain Shared Non-Exchange Revenues (GASB 36)

This Statement requires governments who receive shared revenues from another government to account for such revenues in a manner consistent with the provider government. The new guidance is effective for fiscal years beginning after June 15, 2000, although provisions related to accrual basis recognition of revenue are effective upon adoption of GASB 34.

Effective Dates at a Glance

The chart on the following pages lists the effective dates of final accounting pronouncements discussed in this newsletter, as well as those of certain accounting pronouncements issued before 2000, but whose effective dates could have an effect on 2000 financial statements. All information should be reviewed in conjunction with the effective date and transition information contained in the actual pronouncements.

Pronouncements

SFAS 133, *Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 137, Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement Nos. 133 and 138*

SFAS 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*

SFAS 139, *Rescission of FASB Statement No. 53 and Amendments to FASB Statement Nos. 63, 89, and 121*

SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - A Replacement of FASB Statement No. 125*

FASB Interpretation 44, *Accounting for Certain Transactions Involving Stock Compensation*

SOP 00-2, *Accounting by Producers and Distributors of Films*

Effective Dates – Transition

Applies to financial statements for all fiscal quarters of fiscal years beginning after June 15, 2000 (as amended by SFAS 137). Initial application should be as of the beginning of a company's fiscal quarter. On that date, hedging relationships must be designated anew and documented. Earlier application of all of the provisions of SFAS 133 is encouraged, but was permitted only as of the beginning of any fiscal quarter that begins after issuance (June 1998). Retroactive application to financial statements of prior periods is prohibited.

SFAS 137 was effective upon issuance. An entity that has already applied the provisions of SFAS 133 and has issued interim or annual financial statements reflecting that application may not revert to a previous method of accounting for derivative instruments and hedging activities.

Applies to financial statements for fiscal periods beginning after December 15, 1999, except for the provisions incorporated from FASB Interpretation 42, which are already in effect. May be applied either by restating the financial statements of all prior years presented or by recognizing the cumulative effect of the change in accounting principle in the year in which the SFAS is first applied.

See SOP 00-2 guidance below.

Applies to transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Balance sheet recognition and reclassifications of collateral and related disclosures are required for fiscal years ending after December 15, 2000. Disclosures are not required for prior periods' financial statements.

Effective dates vary depending on the nature of the transaction, as follows. Applies prospectively to new awards, exchanges of awards in business combinations, modifications to existing awards and changes in grantee status that occurred on or after July 1, 2000. Early adoption is not permitted. Previously recognized expenses on awards issued to non-employee directors should be reversed and reported as a cumulative effect of a change in accounting principle.

With respect to the definition of an employee and for modifications to directly or indirectly reduce an award's exercise price, the effective date is for grants and events occurring after December 15, 1998. Applies to modifications of existing awards to add a reload option issued after January 12, 2000. If any of these events occurred before July 1, 2000, no adjustments to prior period financial statements are required. Additional compensation cost that is attributable to periods prior to July 1, 2000 should not be recognized.

Applies to fiscal years beginning after December 15, 2000. Early application is encouraged and adoption should be reflected as a cumulative effect of an accounting change.

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Pronouncements

SOP 00-3, Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies ("MIHC") and for Certain Long-Duration Participating Contracts

GASB 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments

GASB 36 – Recipient Reporting for Certain Shared Non-Exchange Revenues

Effective Dates – Transition

Applies to past and future demutualizations or formations of an MIHC. For those that occur after December 31, 2000, this SOP applies on the date of the demutualization or formation of the MIHC. For a demutualization or formation of an MIHC that occurred on or before December 31, 2000, this SOP, with the exception of reporting related transactional expenses, should be applied retroactively through restatement or reclassification, as appropriate, of all previously issued financial statements. Early adoption is encouraged.

Governments with defined revenues:

- Exceeding \$100 million – effective for fiscal years beginning after June 15, 2001.
- Exceeding \$10 million but less than \$100 million – effective for fiscal years beginning after June 15, 2002.
- Less than \$10 million -- effective for fiscal years beginning after June 15, 2003.

Early adoption is permitted.

Applies to fiscal years beginning after June 15, 2000. Accrual revenue provisions are effective upon adoption of GASB 34.

Material discussed in this *Financial Reporting* letter is meant to provide general information and should not be acted upon without first obtaining professional advice appropriately tailored to your individual facts and circumstances.

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