*THE* ***GASB*** *REPORT*

***No. 317 / August 2011***

*(The GASB Report No. 279)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***October 5–6***

***November 8–10 (The November 10 meeting will take place at the LaGuardia Plaza Hotel, East Elmhurst, NY.)***

The GASB also is scheduled to meet via teleconference on **October 18** and **November 29.** The precise time, as well as the agenda, will be announced approximately two weeks before each meeting. Unless otherwise indicated, all meetings are held at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut.

In addition, the GASB will be holding public hearings and user forums on the pension Exposure Drafts on October 3 and 4, respectively, in East Elmhurst, New York (LaGuardia Plaza Hotel); October 13 and 14, respectively, in San Francisco, California (Sir Francis Drake Hotel); and October 20 and 21, respectively, in Chicago, Illinois (Renaissance Chicago O’Hare Hotel).

The GASB also will be holding public hearings on the concepts Preliminary Views at the above hotels in the morning on October 4, October 14, and October 21.

Finally, the GASB will meet with the Governmental Accounting Standards Advisory Council on November 10 and 11 in East Elmhurst, New York.

Please check the GASB website at www.gasb.org three working days prior to meetings to verify the final agenda.

If you plan to attend *any* meetings, please notify Ragan Vincent at (203) 956-5372 or via email at rpvincent@gasb.org. In addition, due to the FAF’s security procedures, visitors to the Norwalk meetings are required to go to www.gasb.org to register at least 24 hours before each meeting they are planning to attend.

***GASB Remembers Charter Board Member Elmer Staats***

Elmer B. Staats, an original member of the GASB who served from its inception in 1984 through June 30, 1990, died July 23 after an extended illness. He was 97 years old.

During a lengthy and distinguished career with the federal government that began in 1939, Mr. Staats served during the terms of nine U.S. presidents from Franklin D. Roosevelt to Ronald Reagan. He served in a number of high-level positions at the Bureau of the Budget, which is now known as the Office of Management and Budget, before being nominated to a 15-year term as comptroller general of the United States by President Lyndon B. Johnson in 1966.

At the point in his career at which Mr. Staats became a member of the GASB, he had established a long history of advocacy for accountability and transparency in governmental financial reporting. He served on the GASB during the critical initial 6-year period during which the first 13 GASB Statements were issued. Mr. Staats was instrumental in the development of Concepts Statement No. 1, *Objectives of Financial Reporting,* which has its foundation in accountability and decision-useful information, including cost of services.

James F. Antonio, the first GASB chairman who served with Mr. Staats, described Mr. Staats as “a true giant of governmental auditing.”

“We were privileged to have Elmer Staats as a GASB member,” Mr. Antonio said. “To a new Board, the former U.S. Comptroller General brought much needed credibility from beyond state and local government accountants. Our expectations were more than fulfilled by his honorable service on the Board,” he added.

Martin Ives, who served as the GASB’s vice-chairman from the Board’s inception through June 30, 1994, and as its director of research from its inception until 1990, said of his former colleague, “When the GASB was established, one of the things we needed most was credibility. Elmer Staats helped give us that. Elmer was a giant in our field—a leader, an intelligent and wise man, and above all, a good and decent human being,” Ives said.

In a press release issued by the Government Accountability Office, Comptroller General of the United States Gene L. Dodaro described Mr. Staats as “a strong advocate for constructive change and good government principles.” He added that “his leadership at both the Bureau of the Budget and GAO for 30 years was never matched by anyone else in the 20th century.”

In the release, former Comptroller General David Walker said, “Elmer Staats was a model public servant who made a difference in every position that he ever held. He was a person of unquestioned integrity and an inspiration to me and many others. He will not be forgotten,” Walker said.

After leaving the GASB, Mr. Staats was appointed to serve as the first chairman of the Federal Accounting Standards Advisory Board.

In a press release, FASAB Chairman Tom Allen, a former chairman of the GASB, said Mr. Staat’s leadership at that Board “laid a strong foundation” for more than 20 years “of steady improvements in federal accounting.”

Mr. Staats’s interment was held privately. A memorial service at the Metropolitan United Methodist Church, 3401 Nebraska Avenue NW, Washington, DC, 20016, is planned for Saturday, September 10.

***GASB Issues Exposure Draft Identifying Specific Deferred Outflows and Deferred Inflows of Resources***

At the August meeting, the GASB approved an Exposure Draft of a proposed Statement, *Reporting Items Previously Recognized as Assets and Liabilities,* that proposes reclassifying certain items currently reported as assets and liabilities.

There is a clear and growing need for guidance addressing items that appear to meet the definition of deferred outflows of resources and deferred inflows of resources as they appear in Concepts Statement No. 4, *Elements of Financial Statements,* but are not specifically identified as such throughout the GASB’s authoritative literature.

Concepts Statement 4 identifies consumptions and acquisitions of net assets related to future periods as deferred outflows of resources and deferred inflows of resources, respectively. Because the Concepts Statement explicitly specifies that recognition of deferred outflows and deferred inflows should be limited to those instances identified in GASB authoritative pronouncements, guidance is needed to determine which of these items—for example, deferred charges and deferred revenues—should be reported as deferred outflows of resources or deferred inflows of resources rather than as assets or liabilities.

Currently, two GASB pronouncements require the recognition of deferred inflows of resources and deferred outflows of resources. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires the recognition of deferred outflows of resources and deferred inflows of resources in certain cases. That Statement provides for the deferral of changes in the fair value of hedging derivatives, for example.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* which will become effective for financial statements for periods beginning after December 15, 2011, also will require the recognition of deferred inflows of resources in specific situations. That Statement requires the deferral of certain up-front payments a government receives from an entity it has contracted with to operate a major capital asset, such as a toll road or hospital, for example.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which also will become effective for financial statements for periods beginning after December 15, 2011, provides financial statement presentation guidance for these elements; however, it does not identify any additional items that should be recognized within these element classifications. Statement 63 only will apply to items that have been specifically identified by the GASB as deferred outflows of resources or deferred inflows of resources.

Project deliberations that resulted in the issuance of the Exposure Draft examined the existing GASB literature for items that could potentially meet the criteria for recognition as deferred outflows of resources and deferred inflows of resources. As a result of the Board’s deliberations, some assets would continue to be classified as assets, others would be recognized as deferred outflows of resources, and still others would be recognized as outflows of resources. Similarly, some liabilities would continue to be classified as liabilities, others would be recognized as deferred inflows of resources, and still others would be recognized as inflows of resources.

The following is a list of some examples of the classification of the items based on the decisions reached by the Board:

***Transactions in which the resulting item should continue to be reported as an asset***

• Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than a time requirement has not been met (Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*)

• The purchase of future revenues from a government outside the financial reporting entity (Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*)

***Transactions in which the resulting item should be reported as a deferred outflow of resources***

• Resources advanced to another government in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when a time requirement is the only eligibility requirement that has not been met by the other government (Statement 33)

• Deferred debit amounts resulting from the refunding of debt (Statements No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*)

***Transactions in which the resulting item should be reported as an outflow of resources***

• Acquisition costs for insurance entities and public entity risk pools (Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* and Statement 62)

• Debt issuance costs (Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt,* and Statement 62)

***Transactions in which the resulting item should continue to be reported as a liability***

• Resources received in advance in relation to a derived tax revenue nonexchange transaction (Statement 33)

• Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when eligibility requirements other than a time requirement has not been met (Statement 33)

• Resources received in advance of an exchange transaction (Statement 62)

***Transactions in which the resulting item should be reported as a deferred inflow of resources***

• Resources received in advance in relation to an imposed nonexchange transaction (Statement 33)

• Resources received in advance in relation to a government-mandated nonexchange transaction or a voluntary nonexchange transaction when time requirements are the only eligibility requirement that has not been met by the receiving government (Statement 33)

• Deferred credit amounts resulting from the refunding of debt (Statements 23 and 62)

***Transactions in which the resulting item should be recognized as an inflow of resources***

Net balance (credit) of loan origination fees:

• Excluding any portion related to points related to lending activities (Statements 10 and 62)

• Excluding any portion related to points for mortgage loans held for investment (Statement 62)

• Including any portion related to points for mortgage loans held for resale after the sale occurs (Statements 10 and 62)

If the requirements of this proposed Statement ultimately become final, they would improve financial reporting by standardizing the use of deferred outflows of resources and deferred inflows of resources in financial statements. In addition, uncertainty regarding the classification of items that may seem to meet the definition of a deferred outflow of resources or a deferred inflow of resources would be diminished.

***Proposed Effective Date***

The requirements of this proposed Statement would be effective for periods beginning after June 15, 2012, with earlier application encouraged.

***How to Obtain Copies of the Exposure Draft***

Copies of the Exposure Draft may be downloaded free of charge from www.gasb.org. The comment deadline is November 18, 2011. Additional details on how to provide comments to the GASB on this proposal are available in the front of the Exposure Draft.

***Board Meeting Summary***

The GASB met via teleconference on July 26 to discuss issues associated with its projects on reporting balances previously recognized as assets and liabilities, and financial guarantees.

The Board also held a public meeting on August 17–19 to discuss issues associated with its projects on financial projections related to economic condition reporting, reporting items previously recognized as assets and liabilities, government combinations, financial guarantees, the American Institute of Certified Public Accountants audit and accounting guide on health care entities, the user guide series, other postemployment benefits, and the technical plan for the final third of 2011. Due to publication deadlines, details of those deliberations are not described in this issue of *The GASB Report* but will be highlighted in the next issue.

***Reporting Items Previously Recognized as Assets and Liabilities***

The Board continued deliberations on the reclassification project primarily related to deferrals and reviewed the staff’s analysis related to the circumstances in which a pension plan’s net position exceeds the total pension liability. In addition, the Board discussed the preballot draft of the Exposure Draft, *Reporting Items Previously Recognized as Assets and Liabilities.*

The Board discussed the circumstance in which a pension plan’s net position exceeds the total pension liability and tentatively concluded that in this circumstance, the resulting debit balance represents a prepayment of the employer and, consistent with the notion of other prepayments, should be classified as an asset.

The Board also reconsidered its discussion on loan origination fees and concluded that the receipt of payment for points should be accounted for separately. The Board tentatively decided that, like all origination fees, the receipt of payment for points does not represent a present obligation to sacrifice resources and, therefore, should not be classified as a liability. Based on this interpretation, the Board tentatively concluded that the receipt of payment for points is an acquisition of net assets that is applicable to a future reporting period and, therefore, represents a deferred inflow of resources and should be recognized as revenue in a systematic and rational manner over the life of the loan. All other loan origination fees will continue to be considered inflows of the period as tentatively concluded previously by the Board.

At the August public meeting, the Board unanimously approved the issuance of the Exposure Draft, *Reporting Items Previously Recognized as Assets and Liabilities,* for public comment. (Please see the related story on page 1.)

***Financial Guarantees***

In considering its financial guarantees project, the Board discussed the definition of a financial guarantee and the scope of the overall project. The Board tentatively agreed that the definition should contain the following attributes: the guarantor is required to perform an action—indemnification—under specified conditions and the guarantor is an entity separate from the entities involved in the underlying transaction being guaranteed.

***GASB Awards 2011 Gil Crain Research Grant***

The GASB has awarded the 2011 Gil Crain Memorial Research Grant for two research projects. Juita-Elena Yusuf, assistant professor of urban studies and public administration, Old Dominion University in Norfolk, Virginia, College of Business and Public Administration, and Meagan Jordan, associate professor of public administration, University of Arkansas at Little Rock, Institute of Government, will conduct research and prepare a research memorandum addressing popular financial reporting. Amy Schwabe, a governmental research consultant, will conduct research and prepare a research memorandum addressing various issues related to infrastructure reporting. This year’s award winners were selected from 11 applicants.

The GASB seeks to leverage research efforts by encouraging the academic community to conduct applied research that is relevant to the GASB’s standards-setting activities. The GASB has encouraged academics and other researchers since its formation in 1984 to conduct studies that would be relevant to GASB activities. During the past quarter century, such research efforts have resulted in the publication of nearly two dozen GASB Research Reports and numerous journal articles.

The GASB’s annual academic research grants were named for the late Dr. Gilbert W. Crain, a long-time friend and colleague of the GASB. Dr. Crain served as a facilitator of GASB user focus groups and interviews for a number of significant projects and, he performed user needs research on the GASB’s behalf. His commitment to improving financial reporting for state and local government was unsurpassed in his field.

***Technical Inquiry Activities: Service Efforts and Accomplishments Report for First Half of 2011***

***How and Why the GASB Produces This Report***

In addition to its activities related to developing new and improved standards of accounting and financial reporting and other communications for state and local governments, the GASB staff continues to spend a significant amount of time responding to questions (technical inquiries) about existing GASB standards. This service efforts and accomplishments (SEA) report presents performance information about the technical inquiry activities of the GASB staff during the first six months of 2011, with comparative information for 2008 through 2010.

The GASB reports this performance information to apprise its constituents—the preparers, auditors, and users of state and local government financial reports—of its efforts to assist in understanding and implementing GASB standards. The GASB’s efforts to respond to constituent questions are key to supporting the educational quality of its standards.

At the beginning of each month, the GASB conducts a brief survey of inquirers whose inquiries were completed in the previous month. The GASB staff selects a random sample of 15 inquirers each month, or roughly 10 percent of the inquiries closed. The survey is administered primarily by email or alternatively by telephone if an email address is not available. The response rate approaches 100 percent every month; if an inquirer does not respond to the initial contact or a subsequent reminder, then an additional inquirer is selected randomly to ensure at least 15 respondents every month. The survey poses four questions regarding the inquirer’s satisfaction with the understandability and timeliness of the GASB’s answer, the helpfulness of the staff member, and the overall experience.

Although all reasonable efforts are made to ensure that the information underlying the performance information in this report is accurate, it should be noted that this information has not been independently audited.

***Major Goals and Objectives***

*GASB Goal: Education—Promote the development of informed and competent financial report users, preparers, and auditors.* Constituents need assistance in understanding GASB pronouncements, as well as in understanding and using the resulting information in financial reports.

Within the goal of education, the following performance measures assess a part of the GASB’s strategic plan objective to “Guide and educate constituents about the content and value of the GASB’s reporting requirements and proposed standards.”

The GASB equates success toward this objective with achieving a high degree of constituent satisfaction regarding how quickly a response to the inquiry is received, how understandable the response is, how helpful the staff member handling the inquiry is, and the overall experience of submitting an inquiry and receiving a response.

***Key Measures of SEA Performance***

*Table 1. Inquirer Satisfaction with Understandability, Helpfulness, and Promptness*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Measure** | **Total 1/11–6/11** | **GASB Goals** | **Total 2010** | **Total 2009** | **Total 2008** |
|  |  |  |  |  |  |
| Answers to technical inquiries were understandable or very easy to understand | 97.3% | 90.0% | 95.6% | 96.7% | 97.3% |
| Person responding to technical inquiry was helpful or very helpful | 97.3% | 90.0% | 97.8% | 98.4% | 98.9% |
| Person making technical inquiry was satisfied or very satisfied with promptness of response | 96.0% | 90.0% | 96.7% | 96.7% | 98.4% |
| Overall, person making technical inquiry was satisfied or very satisfied with the experience | 97.3% | 90.0% | 94.5% | 96.2% | 97.8% |

*Table 2. Time Required to Complete Inquiries*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Technical inquiries closed within:** | **Total 1/11–6/11** | **GASB Goals** | **Total 2010** | **Total 2009** | **Total 2008** |
|  |  |  |  |  |  |
| 0–6 days | 94.3% | 80.0% | 84.0% | 84.9% | 85.2% |
| 7–13 days | 99.2% | 90.0% | 95.5% | 94.0% | 92.9% |
| 14–20 days | 99.7% | 95.0% | 98.1% | 96.7% | 95.8% |
| 21–27 days | 99.7% | 100.0% | 99.1% | 98.2% | 97.4% |
| 28+ days | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

*Table 3. Time Until First Contact Is Made with the Inquirer*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **First contact with inquirer made within:** | **Total 1/11–6/11** | **GASB Goals** | **Total 2010** | **Total 2009** | **Total 2008** |
|  |  |  |  |  |  |
| 1 day | 72.2% | 60.0% | 65.1% | 64.8% | 69.4% |
| 2–6 days | 94.3% | 90.0% | 90.2% | 90.0% | 88.8% |
| 7 days | 96.0% | 100.0% | 92.7% | 92.7% | 90.8% |
| 8+ days | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

***Discussion and Analysis of Results and Challenges***

Constituent satisfaction with the GASB’s technical inquiry activities was significantly above the GASB’s goals in the first half of 2011. (See Table 1.) The percentage of inquirers surveyed that were satisfied or very satisfied with the understandability, helpfulness of the GASB staff member responding, and promptness of the answer to their inquiry was at least 97 percent, 97 percent, and 96 percent, respectively. Overall satisfaction was more than 97 percent. These results either exceed or very nearly match the 2010 figures.

The goal of completing all technical inquiries in less than four weeks is an ongoing challenge. (See Table 2.) The percentage of inquiries closed in less than 4 weeks improved over 2010 to 99.7 percent. While the GASB staff will endeavor to improve the percentage of inquiries closed within one week, the figures recorded for inquiries closed within two and three weeks both well exceeded established benchmarks for the first half of 2011.

The length of time required to complete an inquiry often relates to the complexity of the subject matter. The guidance provided in response to technical inquiries is specific to the facts and circumstances of the particular inquiry, which may be difficult to ascertain from the original question. In addition, the current work load of the particular staff member to whom an inquiry is assigned may explain why a small percentage of inquiries take four weeks or more to complete. For instance, the volume of technical inquiries tends to increase noticeably as the effective date of a new standard approaches.

Although it may take one to three weeks to provide a final response to an inquirer, the staff actually responds much sooner in order to acknowledge receipt of the inquiry and to gather additional information. The GASB’s goal is to make initial contact with all inquirers within one week.

First contact was made within 1 week for 96 percent of the inquiries received in the first half of 2011. (See Table 3.) This represents the highest percentage recorded in this category.

The benchmark for making contact within 2 to 6 days 90 percent of the time was exceeded by more than 4 percentage points in the first half of 2011. This is a significant improvement over the 2010 figure, when the benchmark was only just exceeded. First contact did not occur until at least a week had passed only 4 percent of the time during the first half of 2011. This represents improvement of more than 3 percentage points over 2010, when about 7.3 percent of inquirers were not contacted within 7 days, but it falls short of the overall GASB goal of following up on 100 percent of inquiries within 7 days.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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