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

***No. 322 / February 2012***

*(The GASB Report No. 285)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***April 18–20***

***May 30–June 1***

The GASB also is scheduled to meet via **teleconference** on **March 27** and **May 7.** 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 on the financial projections Preliminary Views on March 29 in Los Angeles, California (Courtyard by Marriott/LAX Century Boulevard Hotel) and on April 17 in East Elmhurst, New York (LaGuardia Plaza Hotel).

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 *all* meetings are required to go to www.gasb.org to register at least 24 hours before each meeting they are planning to attend.

***GASB Requests Input on Emerging Issues***

While the GASB closely monitors practice for developing issues in governmental accounting and financial reporting, those who prepare, audit, and use governmental financial statements are best positioned to identify potential practice issues as they arise. As a result, the Board continually seeks input from its constituents to help identify emerging issues that may require its attention. Though there is no room on the GASB’s agenda at present for additional major projects, the Board is committed to addressing important emerging issues faced by state and local governments as they arise.

***How the GASB Becomes Aware of Issues***

The GASB has several processes in place that assist in identifying emerging issues. These include the activities of its advisory council, the Governmental Accounting Standards Advisory Council (GASAC), which meets three times a year to, among other things, consider whether there are matters that the GASB should research. Constituents also indirectly help the GASB identify potential issues when they contact its staff with questions about its standards. The GASB tracks the technical inquiries that it receives, and if a number of questions about a particular topic are posed, the Board, GASAC, and staff consider whether there may be an issue that requires further consideration.

In addition to these procedures, the GASB encourages constituents to notify its staff if issues come to their attention, including raising those issues at presentations made by GASB representatives at conferences around the country.

***How to Notify the GASB of Potential Accounting Issues***

If you are aware of new issues for which accounting and financial reporting guidance is needed or any issues with the interpretation or implementation of GASB standards or with the financial reporting information that results from application of existing guidance, please let the GASB know. Potential concerns can be sent via email to the GASB’s director of research and technical activities at director@gasb.org. Alternatively, a letter can be sent to:

Director of Research and Technical Activities

GASB

401 Merritt 7

PO Box 5116

Norwalk, CT 06856-5116

When submitting a description of an issue, please include your name and contact information so that the GASB’s technical staff can follow up with you. Matters brought to the GASB’s attention will be explored by the staff and, based on the results of that research, may be considered either for addition as a project on the GASB’s technical agenda, along with competing projects, or for inclusion in a question and answer in the GASB *Comprehensive Implementation Guide.*

***Board Meeting Summary***

The GASB held a public meeting on January 24–26 in Norwalk, Connecticut, to discuss issues associated with its projects on pension accounting and financial reporting, government combinations, financial guarantees, reporting balances previously reported as assets and liabilities, measurement and application of fair value, technical corrections, and the user guide series.

The Board also met via teleconference on February 9 to discuss issues related to its project on pension accounting and financial reporting, and to discuss preballot drafts of two final Statements, *Items Previously Reported as Assets and Liabilities,* and *Technical Corrections,* an amendment of GASB Statements No. 10 and No. 62.

***Pension Accounting and Financial Reporting***

In its project addressing pension accounting and financial reporting, the Board continued its deliberation of issues raised by respondents to Exposure Drafts, *Accounting and Financial Reporting for Pensions* (Employer Exposure Draft) and *Financial Reporting for Pension Plans* (Plan Exposure Draft). Specifically, the Board considered issues primarily related to the overall financial reporting focus and nature of the employment exchange, general cost concerns, and comments and other feedback about proposed measurement and recognition of the net pension liability by single and agent employers, including the projection of benefit payments, the discount rate calculation, and the attribution method.

The Board discussed issues related to the proposed “shift” away from the current financial reporting focus on the funding of pension benefits and the potential displacement of information about or from the measurement perspective of pension funding. The Board tentatively affirmed its view that information included in employer’s financial reports should reflect the financial effects of the broad range of transactions and other events that impact the employer’s obligation to provide pensions—not only those associated with funding the benefits. The Board also considered recommendations by respondents to the Exposure Drafts related to incorporating pension funding information in employer financial reports.

With regard to respondent suggestions that the final Statements be modified to require (1) additional, funding-oriented measures such as funded status and (2) measures of actuarially calculated employer contributions by employers regardless of whether such measures are produced for funding purposes, the Board tentatively agreed to consider, subsequent to issuance of final Statements, a potential follow-up project to evaluate whether such information should be required.

The Board tentatively affirmed its view that the net pension liability (the portion of the obligation to employees for defined pension benefits in excess of the plan net position available for payment of those benefits) meets the definition of a liability as defined by Concepts Statement No. 4, *Elements of Financial Statements.* In addition, it discussed issues raised with regard to accounting and financial reporting requirements for an employer’s secondary responsibility for payment of benefits should earnings on plan investments not be sufficient. The Board tentatively agreed that the employer’s secondary responsibility is akin to a financial guarantee and that, as such, it generally would not meet the definition of a liability of the employer. It tentatively agreed to consider a potential note disclosure about the employer’s secondary responsibility for payment of pension benefits should earnings on plan investments not be sufficient.

The Board tentatively affirmed its view that the pension liability to employees for defined benefits is a single, integrated item comprising two components—the total pension liability and plan net position—and it affirmed the Employer Exposure Draft proposals for net presentation of the liability. The Board also considered a number of suggestions received from respondents related to the presentation of the net pension liability and tentatively agreed that the final Statements should not be modified for these suggestions.

Turning to measurement and recognition issues, the Board tentatively affirmed its view that the measurement and recognition requirements for accounting and financial reporting of pensions should reflect (1) the longevity of governments and of pension plans and (2) a view of the interrelationship of individual periods of the employment exchange transaction that result in the employer’s pension obligation.

In addition, the Board considered comments and testimony received on the Exposure Drafts’ proposals in the following areas.

*Selection of assumptions.* The Board tentatively affirmed the Exposure Drafts’ proposals that assumptions for accounting purposes be selected in accordance with Actuarial Standards of Practice, unless otherwise addressed by the GASB.

*Certain assumptions used in the projection of benefit payments.* The Board tentatively affirmed the Exposure Drafts’ proposals that the projection of pension benefit payments include assumptions regarding the projected effects of (1) future salary changes, (2) future service credits, (3) automatic cost-of-living adjustments (COLAs) and other automatic postemployment benefit changes, and (4) ad hoc COLAs and other ad hoc postemployment benefit changes *only to the extent that such changes are considered to be substantively automatic.*

*Discount rate.* The Board reaffirmed its position that the discount rate should be a single rate that produces a present value of total projected benefit payments equivalent to that obtained by discounting projected benefit payments using (1) the long-term expected rate of return on plan investments to the extent that current and expected future plan net position available for pension benefits are projected according to the Exposure Draft proposal to be sufficient to make benefit payments and to continue investing using the investment strategy selected for use in the long term and (2) a high-quality municipal bond index rate for those payments that are projected to be made beyond that point.

• *Long-term expected rate of return.* The Board discussed whether to establish more detailed requirements than those proposed in the Exposure Drafts related to the selection of the rate and tentatively decided that no modification should be made to the final Statements. However, the Board noted that detailed disclosures related to the expected rate of return will provide additional transparency to this assumption.

• *High-quality municipal bond index rate.* The Board tentatively affirmed its view that a municipal bond index rate should be used in the determination of the discount rate when discounting benefit payments that are projected to occur in periods in which plan net position, as projected according to the Exposure Draft proposal, would not be sufficient to make benefit payments and to continue investing using the investment strategy selected for the long term. Based on the public availability of rate information, the Board tentatively agreed to modify the Exposure Draft provisions (which would have required the use of a 30-year index rate for this purpose) to instead require that the rate represent a yield or index rate for bonds with a maturity of 20 years. The Board also tentatively agreed that the municipal bond index rate should not be capped at the long-term expected rate of return on plan investments. In addition, it tentatively was agreed that the discount rate proposals should not be modified to exempt (1) an agent employer from establishing a discount rate specific to its individual plan administered by the agent multiple-employer plan or (2) newly created plans.

• *Projecting contributions for the purposes of determining the discount rate.* The Board tentatively agreed to modify the Exposure Drafts’ proposals to include the following:

– In circumstances in which either (1) contributions are subject to statutory or contractual requirements or (2) a formal, written policy related to employer contributions exists, professional judgment should be applied to project future employer contributions. Application of such judgment should consider the employer’s most recent five-year contribution history as a key indicator of future contributions and should reflect all other known events and conditions. In the event that no statutory or legal contribution requirement or formal, written contribution policy exists, projected contributions should be limited to an average rate of contributions over the most recent five-year period, potentially modified based upon the consideration of subsequent events.

– The Board also considered respondents’ suggestions to establish a set of criteria relative to employer contribution policy and practice that would serve as a “safe harbor” that would expressly exempt an employer from projecting cash flows for purposes of determining the discount rate and would allow the employer to use the long-term expected rate of return as the discount rate. It tentatively decided that the final Statements should not be modified to include such criteria. However, the Board tentatively agreed to modify the language in the Exposure Draft to indicate the possibility that the sufficiency of projected plan net position to pay projected pension benefits might be determined through other methods. When a method can reliably demonstrate the sufficiency of projected plan net position, only the long-term expected rate of return should be employed.

– The Board also tentatively agreed to clarify that for purposes of projecting future employer and employee contributions to determine the discount rate, projected contributions should be considered to offset, first, the service costs of the employees in the period and, second, service costs of earlier periods.

• *Attribution method.* The Board tentatively affirmed its view that a single method—the entry age actuarial cost method applied with service cost determined as a level percentage of pay—should be required for accounting purposes.

• *Measurement of plan net position.* The Board tentatively affirmed its view that the plan net position component of the employer’s net pension liability should be measured in the same way that it is measured in the pension plan’s statement of plan net position.

• Recognition *of the net pension liability by a single or agent employer.* The Board tentatively affirmed its view that the net pension liability of a single or agent employer is measurable with sufficient reliability to be recognized in the employer’s financial statements.

At the February teleconference, the Board continued its deliberation of issues raised by respondents to the Exposure Drafts. Specifically, the Board considered issues related to employers’ liabilities to a defined benefit pension plan. It also considered issues concerning the recognition of all pension-related liabilities and expenditures in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting.

With respect to liabilities to a defined benefit pension plan, the Board considered a project-staff recommendation to clarify that an employer would recognize pension expense for the incurrence of such a liability only to the extent that there is a net effect on the employer’s net position that results from (1) incurrence of a liability to defined benefit pension plans for employer contributions and (2) a change in the employer’s recognized net pension liability associated with the transaction. The Board tentatively agreed that the final Statement should carry forward the proposals in the Employer Exposure Draft regarding employers’ liabilities to a defined benefit pension plan, with the clarification recommendation by the project staff.

Regarding modified accrual recognition, the Board tentatively agreed that the final Statement should clarify that net pension liabilities are normally expected to be liquidated with expendable available resources to the extent that pension benefits have matured—that is, pension benefit payments are due and plan net position is not sufficient for payments of benefits. Finally, the Board tentatively agreed that the final Statement should clarify that liabilities to defined benefit pension plans, as well as liabilities for defined contribution pensions, are normally expected to be liquidated with expendable available resources when amounts are due pursuant to contractual arrangements or legal requirements.

***Government Combinations***

In its project addressing government combinations, the Board reviewed a preballot draft of the Exposure Draft, *Government Combinations and Discontinued Government Operations.* Board members recommended a number of clarifications on the draft document. In addition, the Board discussed several topics related to government combinations and discontinued government operations.

In December, the Board tentatively agreed that the proposed Statement should include reporting alternatives for situations in which the acquiring government receives amounts of net position in excess of the consideration provided. The Board tentatively decided that the Exposure Draft should propose that governments eliminate the excess net position received by reducing the acquisition values assigned to the noncurrent assets unless there is evidence that the seller’s intent is to accept a lower price in order to provide economic benefit without directly receiving equal value in exchange. In the latter situation, the acquiring government should recognize a contribution equal to the excess net position received. In the first situation, if the values assigned to all noncurrent assets are eliminated, any remaining excess should be recognized as a special item.

In addition, the Board discussed proposed requirements for government acquisitions for which the measurement of specific assets or liabilities is either uncertain or incomplete as of the acquiring government’s fiscal year-end. The Board tentatively agreed to propose that, in those situations, the acquiring government report estimates in its financial statements as provisional amounts. In addition, the Board tentatively agreed to propose measurement adjustments for items previously reported on a provisional basis to be recognized prospectively, in the period in which they occur.

***Financial Guarantees***

In its project on financial guarantees, the Board continued to discuss recognition and measurement issues of governments that in the context of a nonexchange transaction (1) issue obligations that have been guaranteed by another entity or (2) hold obligations that have been guaranteed by an entity other than the issuer of the obligation. The Board also discussed recognition and measurement of a contractual obligation to receive reimbursement for an indemnification payment that is made by a government extending a financial guarantee.

The Board discussed recognition and measurement issues of governments that have issued obligations that have been guaranteed by another entity as a result of a nonexchange transaction. The Board tentatively decided to propose that a government that issues an obligation that is guaranteed as a result of a nonexchange transaction recognize a reduction in its liability for the obligation when a guarantor makes an indemnification payment or legally assumes all or a portion of the obligation from the issuing government. The amount recognized should be measured as the amount of the indemnification payment made or the amount of the obligation assumed by the guarantor.

The Board also considered the requirement of a government issuing a guaranteed obligation to repay a guarantor for an indemnification payment made on behalf of the issuer government. The Board tentatively decided to propose that when an issuer government is required to repay a guarantor for an indemnification payment made, the issuer government reclassify its liability as being due to the guarantor or, when the guarantor purchased the obligation from the obligation holder, continue to report the obligation as a liability until legally released as an obligor.

In discussing recognition and measurement issues of governments that are holders of obligations that have been guaranteed by an entity other than the issuer of the obligation, the Board tentatively agreed that recognition and measurement guidance need not be addressed for governments holding an obligation that is guaranteed by an entity other than the issuer.

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

The Board continued deliberations on the development of a final Statement, *Items Previously Reported as Assets and Liabilities,* based on comments received from respondents and completed its deliberations on government-mandated nonexchange transactions and voluntary nonexchange transactions. The Board also addressed comments regarding the effective date of the final standard on topics considered to be outside the scope of the project and tentatively decided to carry forward the provisions of these topics in the Exposure Draft to a final Statement with little or no modification, other than clarifying changes.

At the February teleconference, after reviewing the preballot draft of the final Statement and offering various suggestions to improve the document, the Board directed the staff to prepare a ballot draft for review at the March public meeting.

***Fair Value—Measurement and Application***

In its project addressing fair value measurement and application issues, the Board held an educational session to provide an opportunity for Board members and project staff to obtain insights regarding issues faced by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board in developing fair value accounting standards in the private sector. An FASB staff member presented information to the Board and then answered questions related to the topic. No Board deliberations occurred and no decisions were reached.

***Technical Corrections***

The Board reviewed comments received in response to the Exposure Draft, *Technical Corrections,* an amendment of GASB Statements No. 10 and No. 62. After discussing amendments suggested by respondents, the Board tentatively decided to delete a sentence from the Basis for Conclusions that addressed the current fund-type definition limitations for risk financing activities.

At the February teleconference, the Board reviewed the preballot draft of the final Statement. After offering a variety of suggestions to clarify and improve the document, the Board directed the staff to prepare a ballot draft for review at the March public meeting.

***The User Guide Series***

The staff discussed a draft of a new GASB user guide, *What You Should Know about the Finances of Governmental Business-Type Activities: A Guide to Financial Statements.* The Board discussed the overall tone and subject matter of the guide, focusing particularly on the chapter on regulated enterprises. The staff also briefed the Board on the review process for the guide and the appointment of an advisory committee of persons experienced with and knowledgeable about business-type activities.

## GASB Performance Measures: Technical Inquiry Activities

Each year, the GASB staff spends a significant amount of time responding to questions (technical inquiries) from its constituents about GASB standards. This effort is an important function of the GASB in fulfilling its mission. The following performance measures assess a part of the mission and 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.”

**Time Required to Complete Inquiries**

GASB response times to complete technical inquiries submitted to the GASB in 2011 exceeded goals for responses in the less than one- , two- , and three-week categories, as indicated in the table below, and showed improvement over 2010 figures. The goal of completing all technical inquiries in less than four weeks was nearly met, with just a single inquiry requiring four or more weeks to complete. Inquiries can take four weeks or more to complete for a number of reasons. More complex inquiries, for example, sometimes lead to an extended dialogue between the inquirer and the GASB staff to obtain or clarify specific facts or circumstances and may therefore take longer to resolve.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Technical Inquiries in 2011** | | | | |
| **Technical  Inquiries Closed Within** | **Number of  Inquiries** | **2011  Cumulative  Percentage** | **2010  Cumulative  Percentage** | **GASB  Goals** |
|  |  |  |  |  |
| 0–6 days | 1,653 | 93.8% | 84.0% | 80.0% |
| 7–13 days | 97 | 99.3% | 95.5% | 90.0% |
| 14–20 days | 11 | 99.9% | 98.1% | 95.0% |
| 21–27 days | 1 | 99.9% | 99.1% | 100.0% |
| 28+ days | 1 | 100.0% | 100.0% | 100.0% |
|  | 1,763 |  |  |  |

**Time Until First Contact Is Made with the Inquirer**

Although it may take longer to provide a final answer to an inquirer, the staff actually responds within days of receiving an inquiry 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. During 2011, contact was made within a day for more than 70 percent of the inquiries. Contact was made within 7 days in nearly 96 percent of the inquiries received. The GASB marked significant progress in its response time in 2011 and is striving to improve further still in 2012.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Technical Inquiries in 2011** | | | | |
| **First Contact with Inquirer Made Within** | **Number of Inquiries** | **2011 Cumulative Percentage** | **2010 Cumulative Percentage** | **GASB Goals** |
|  |  |  |  |  |
| 1 day | 1,255 | 71.2% | 65.1% | 60.0% |
| 2–6 days | 398 | 93.8% | 90.2% | 90.0% |
| 7 days | 35 | 95.7% | 92.7% | 100.0% |
| 8+ days | 75 | 100.0% | 100.0% | 100.0% |
|  | 1,763 |  |  |  |

**Inquirer Satisfaction with Understandability, Helpfulness, and Promptness**

Constituent satisfaction with the GASB’s technical inquiry activities in 2011 substantially exceeded the GASB’s goals in each category and showed improvement over 2010 figures. Overall satisfaction reached nearly 99 percent. This critical measure increased by more than 4 percent over the 2010 overall satisfaction level. The GASB is endeavoring to maintain and improve upon this level of overall inquirer satisfaction in 2012.

|  |  |  |  |
| --- | --- | --- | --- |
| **Technical Inquiries in 2011** | | | |
| **Measure** | **Total 2011** | **GASB Goals** | **Total**  **2010** |
|  |  |  |  |
| Answers to technical inquiries   were understandable or   very easy to understand | 98.9% | 90.0% | 95.6% |
|  |  |  |  |
| Person responding to technical   inquiry was helpful or   very helpful | 98.9% | 90.0% | 97.8% |
|  |  |  |  |
| Person making technical inquiry   was satisfied or very satisfied   with promptness of response | 98.3% | 90.0% | 96.7% |
|  |  |  |  |
| Overall, person making technical   inquiry was satisfied or very   satisfied with the experience | 98.9% | 90.0% | 94.5% |

**How to Submit a Technical Inquiry**

The answers to many general questions (for example, status of a current GASB project or effective date of a Statement) can be found on the GASB’s website, www.gasb.org, or by contacting staff members via email.

Inquirers with questions that include requests for interpretation of accounting standards are encouraged to use the GASB’s web-based technical inquiry system at www.gasb.org. The system can be accessed by clicking the Technical Inquiry System menu item under the Technical Issues tab on the GASB website.

***Fair Value Measurement and Application Task Force Formed***

GASB Chairman Robert H. Attmore recently announced the appointment of a task force to assist with the Board’s fair value measurement project. Members of the task force are:

• Pete Anthony, chief accountant and manager, King County, Washington

• Michelle Camuglia, director, New York State and Local Retirement System

• Robert Donahue, director, Municipal Bonds Group, DWS Investments

• Matt Fabian, managing director, Municipal Market Advisors

• Kathy Ketchum, senior accountant, Sacramento Municipal Utility District, Office of the Controller and Accounting

• Chris Mier, managing director, Analytical Services Division, Loop Capital Markets

• Kristen Orrell, director, Transaction Services, PricewaterhouseCoopers

• Hon. Catherine Provencher, state treasurer, state of New Hampshire

• David A. Vaudt, auditor of state, state of Iowa

• Michael G. Wolfe, partner, National Office Accounting & Auditing, BKD.

***What Do Task Forces Do?***

The GASB assembles task forces for most major current and research projects. Task forces serve as a sounding board, providing suggestions and feedback to the GASB as a project progresses. Task force members review the papers the GASB staff prepares for Board meetings and monitor the Board’s deliberations, commenting as appropriate.

***How Are Participants Selected?***

Task forces are officially appointed by the GASB chairman after consultation with the other GASB members and the Governmental Accounting Standards Advisory Council (GASAC) chairman, and GASB staff.

Task force members typically have a particular expertise or experience with the issue being addressed in the project and also are capable of articulating the views of other, similar constituents. They can identify possible implementation difficulties, assess the potential cost of proposed standards, or opine on the usefulness of the information that will result from those standards.

Potential participants are primarily identified from the GASB’s constituent database, from the GASAC, and from the lists of persons submitting comment letters in response to proposed standards. The GASB attempts to maintain an appropriate balance of financial statement preparers, auditors, and users on each task force. In addition to identifying persons that possess relevant knowledge and experience and that are representative of various types of constituents, the GASB tries to select persons it believes will actively participate by reviewing papers and proposed standards prepared for the Board and by providing regular feedback to the project staff.

***Who’s Who at the GASB***

*In February, the GASB welcomed a new postgraduate technical assistant.*

***Ashley N. Weller*** joined the GASB staff in February 2012. She came to the GASB from Pennsylvania State University, University Park, Pennsylvania, where she received a master’s degree in accounting and a bachelor’s degree in finance. Ashley’s primary areas of responsibility include the Financial Accounting Foundation’s post-implementation review project and the GASB’s GAAP Hierarchy project.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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