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

***No. 328 / July 2012***

*(The GASB Report No. 290)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***August 22–24***

***October 2–4***

The GASB also is scheduled to meet via **teleconference** on **September 10** and **October 19.** 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.

The FAF Board of Trustees will meet on August 21 in New York City.

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 Awards 2012 Gil Crain Research Grant***

The GASB has awarded the 2012 Gil Crain Memorial Research Grant for two research projects. Rebecca Bloch, CPA, a doctoral candidate in accounting at Rutgers, The State University of New Jersey, will conduct research addressing the usefulness to municipal bond analysts of information required by GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.* Byron K. Henry, CPA, Ph.D., an assistant professor of accounting at Bowie State University, will conduct research addressing accounting and financial reporting for loss contingencies. 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.

***Board Meeting Summary***

The Board met on June 18 in Seattle, Washington, in conjunction with the American Public Power Association’s National Conference to discuss issues related to its projects on pension accounting and financial reporting and financial guarantees.

The GASB also met via teleconference on June 25 to discuss issues related to its project on pension accounting and financial reporting and to discuss the update to the *Comprehensive Implementation Guide.* Because details of the final pension standards and the Exposure Draft on financial guarantees were discussed in the June issue of *The GASB Report,* only details of the deliberations of the *Comprehensive Implementation Guide* will be discussed in this issue.

In addition, the Board held a public meeting on July 10 and 11 in Norwalk, Connecticut, to discuss issues associated with a number of projects, including those on the measurement and application of fair value, financial projections as they relate to economic condition reporting, recognition and measurement approaches under the conceptual framework, government combinations, and other postemployment benefits.

***Comprehensive Implementation Guide***

The Board reviewed and provided comments on the ballot draft of the 2012–2013 edition of the *Comprehensive Implementation Guide.* Many of the proposed changes for the 2012–2013 guide result from the implementation of Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* No. 65, *Items Previously Reported as Assets and Liabilities,* and No. 66, *Technical Corrections—2012.* The Board provided suggestions to the staff to clarify the content of certain questions and answers in the proposed document. After discussing these suggested clarifications, the Board cleared the update to the guide for issuance.

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

In its project addressing fair value measurement and application, the Board discussed issues that relate to investment assets, beginning with what constitutes an investment asset. The Board tentatively agreed to propose that an investment asset be defined as:

A security or other asset that a government holds primarily for the purpose of income or profit, and its present service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry.

This tentative definition is intended to guide the Board in making decisions related to investment assets. The Board will return to the question of whether additional factors should be introduced for consideration in the proposed Statement once the staff has conducted additional research.

In considering whether land that includes identifiable and separable land rights could be bifurcated between investment asset and capital asset classifications, the Board determined that further exploration of the application of this concept with stakeholders is necessary before any tentative decisions could be reached. The GASB staff will conduct this further research effort and will present the results of this research to the Board at a future meeting.

Taking the tentative definition of an investment asset into account, the Board tentatively decided to propose that a capital asset held for sale be reclassified as an investment asset when that asset’s service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services. The Board also tentatively agreed to propose that a capital asset held for sale that nevertheless continues to be used to provide services continue to be classified as a capital asset.

In examining real property that is partially used by the government and partially rented to other organizations—split-use property—the Board deliberated whether to classify the real property as an investment asset or a capital asset. That is, the Board considered whether the real property should be classified according to its predominant use or bifurcated in proportion to its use. The Board tentatively agreed to propose that split-use property be bifurcated according to its proportion in use. Finally, within the discussion of what should be classified as an investment asset, the Board tentatively agreed to propose that securitized mortgage loans continue to be classified as investments.

The Board tentatively agreed to propose that as a general proposition, investment assets be reported at fair value. Investment types that would be included in a fair value measurement proposal include:

• Investments that are already measured at fair value

• Alternative investments that are reported by endowments

• Equity securities, stock warrants, and stock rights that do not have readily determinable fair values

• Intangible assets that meet the proposed definition of investments

• Land and land rights that are classified as investments.

Investment types *not* identified in this tentative decision to measure investments generally at fair value include:

• Investments that contractually do not participate in fair value changes

• Money market investments and investments that mature in 90 days or less reported by external investment pools

• Investments in certain external investment pools.

The Board then requested that the staff conduct additional research with stakeholders and provide the Board with an analysis of impairment testing alternatives. The project staff will continue to monitor the progress of other standards setters, especially with respect to impairment testing, lease accounting, and not-for-profit accounting for investments, and will brief the Board on new developments as they arise.

The Board tentatively agreed to propose that when a capital asset is held for sale and its present service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry, that asset be measured at the lower of its carrying amount or its fair value.

Addressing the measurement basis of a capital asset that is classified as an investment asset but then returns to its original classification as a capital asset, the Board tentatively agreed to propose that such an asset be reclassified as a capital asset and that the asset be measured at the lower of (1) its carrying amount before the asset was initially reclassified as an investment, adjusted for any depreciation expense that would have been recognized had the asset been continuously classified as a capital asset, or (2) its fair value at the date of the subsequent decision not to sell.

After some discussion, the Board tentatively rejected the possibility of proposing a “fair value option” in the GASB literature, primarily because it would allow for selective application of fair value measurements to certain assets and liabilities that have not been previously measured at fair value.

Finally, the Board discussed the existence of alternative investments within the governmental environment and tentatively decided to propose that when an asset’s fair value measurement is not readily determinable, the guidance established in FASB Accounting Standards Update No. 2009-12—*Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* should be used. Accordingly, such assets would be measured using the practical expedient of net asset value per share without adjustment to other measures of fair value.

***Economic Condition Reporting: Financial Projections***

In its project on financial projections as they relate to economic condition reporting, the Board discussed a summary of comments received in response to the Preliminary Views, *Economic Condition Reporting: Financial Projections,* staff analysis of those comments, and staff recommendations relating to the components of fiscal sustainability information. The Board plans to consider all of the due process feedback received as it redeliberates the various proposals included in the Preliminary Views before determining the future direction of the project.

The Board tentatively reaffirmed that Component 1 (projections of total and major individual cash inflows), Component 2 (projections of total and major individual cash outflows), and Component 3 (projections of total and major individual financial obligations) are necessary to assist users in assessing a governmental entity’s economic condition, including fiscal sustainability, and tentatively agreed to propose that major cash inflows be projected by major individual source.

The Board tentatively agreed to add a proposed requirement that the projections of cash inflows and outflows (Components 1 and 2) include beginning and ending cash and cash equivalent balances for all projection periods.

Regarding projections of annual debt service payments (Component 4), the Board tentatively agreed that they should be included within the projections of cash outflows (Component 2) and therefore should be removed as an individual component of fiscal sustainability information as presented in the Preliminary Views. The Board tentatively agreed to propose that cash outflows related to debt service payments always be considered “major cash outflows” and therefore be individually projected.

In addition, the Board tentatively agreed to propose that the assumptions used in the projections of cash outflows related to debt service payments include the minimum debt service requirements disclosed in the notes to the financial statements, plus the debt service on debt obligations that have been authorized, not yet issued, but are expected to be issued within the projection period and that this assumption be disclosed.

Finally, the Board directed the project staff to conduct additional user outreach and to include questions on intergovernmental interdependencies and how essential they believe the narrative discussion of these interdependencies (Component 5) is to their assessment of a governmental entity’s fiscal sustainability.

***Conceptual Framework—Recognition and Measurement Approaches***

The Board began its deliberations of comments and other feedback received on the Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches,* focusing on the feedback related to the economic resources measurement focus proposals.

The Board tentatively agreed to propose that the economic resources measurement focus be defined as follows:

The economic resources measurement focus incorporates all outflows of resources and inflows of resources and all assets, liabilities, deferred outflows of resources, and deferred inflows of resources.

The Board tentatively agreed to propose that the recognition criteria for financial statements prepared using the economic resources measurement focus continue to include the first criterion proposed in the Preliminary Views—that the item meets the definition of an element of the financial statements—and that the second criterion—that the item be measurable with sufficient reliability—be modified to indicate that measurement of the item sufficiently reflects the qualitative characteristics described in Concepts Statement No. 1, *Objectives of Financial Statements.* The Board believes that emphasis on or reference to only one or some of the qualitative characteristics would inappropriately imply a hierarchy among the qualitative characteristics.

The Board also tentatively agreed to propose a three-step hierarchy for recognition concepts for financial statements prepared using the economic resources measurement focus, which is consistent with the approach used by the Board in deliberating issues resulting in the issuance of Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Under this three-step hierarchy, an item is first evaluated to determine whether it meets the definition of an asset or liability. If the item does not meet the definition of an asset or liability, the item is evaluated to determine whether it meets the definition of a deferred outflow of resources or deferred inflow of resources. If the item does not meet the definition of a deferred outflow of resources or deferred inflow of resources, the item would be evaluated to determine whether it meets the definition of an outflow of resources or inflow of resources.

***Government Combinations***

In its project on government combinations, the Board reviewed a summary of feedback received from respondents to the Exposure Draft, *Government Combinations and Disposals of Government Operations.* The Board also reviewed the work plan proposed by the staff to address accounting and financial reporting issues raised by respondents. No tentative Board conclusions were reached.

***Other Postemployment Benefits***

In its project on other postemployment benefits, the Board revisited the results of staff research using Comprehensive Annual Financial Reports and reconsidered some conceptual issues related to accounting and financial reporting for other postemployment benefits. The Board reaffirmed its tentative decision to propose that an employer’s net obligation for other postemployment benefits, when determined by projecting future benefit payments, including probabilities of future events, discounting to present value using an appropriate rate, attributing the costs to periods using an appropriate actuarial cost allocation method, and subtracting net position accumulated in a qualifying trust, meets the definition of a liability in Concepts Statement No. 4, *Elements of Financial Statements.* (Concepts Statement 4 defines liabilities as “present obligations to sacrifice resources that the government has little or no discretion to avoid.”) The details related to projecting benefit payments and determining the discount rate and attribution method will be determined at future meetings.

In contrast to its prior tentative decision, the Board determined that it was not appropriate to conclude at this time whether the employer’s net liability for other postemployment benefits is measurable with sufficient reliability for recognition in the financial statements. The issue will be reconsidered later in the project when the details of a proposal related to measurement of the net other postemployment benefits liability are determined.

***Technical Inquiry Activities: Service Efforts and Accomplishments Report for First Half of 2012***

***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 2012, with comparative information for 2009 through 2011.

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 goal of its activities.

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 1/12–6/12** | **GASB Goals** | **Total 2011** | **Total 2010** | **Total 2009** |
|  |  |  |  |  |  |
| Answers to technical inquiries were understandable or very easy to understand | 97.8% | 90.0% | 98.9% | 95.6% | 96.7% |
| Person responding to technical inquiry was helpful or very helpful | 97.8% | 90.0% | 98.9% | 97.8% | 98.4% |
| Person making technical inquiry was satisfied or very satisfied with promptness of response | 96.7% | 90.0% | 98.3% | 96.7% | 96.7% |
| Overall, person making technical inquiry was satisfied or very satisfied with the experience | 97.8% | 90.0% | 98.9% | 94.5% | 96.2% |

*Table 2. Time Required to Complete Inquiries*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Technical inquiries closed within:** | **Total 1/12–6/12** | **GASB Goals** | **Total 2011** | **Total 2010** | **Total 2009** |
|  |  |  |  |  |  |
| 0–6 days | 93.2% | 80.0% | 93.8% | 84.0% | 84.9% |
| 7–13 days | 98.3% | 90.0% | 99.3% | 95.5% | 94.0% |
| 14–20 days | 99.8% | 95.0% | 99.9% | 98.1% | 96.7% |
| 21–27 days | 100.0% | 100.0% | 99.9% | 99.1% | 98.2% |
| 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 1/12–6/12** | **GASB Goals** | **Total 2011** | **Total 2010** | **Total 2009** |
|  |  |  |  |  |  |
| 1 day | 71.1% | 60.0% | 71.2% | 65.1% | 64.8% |
| 2–6 days | 93.2% | 90.0% | 93.8% | 90.2% | 90.0% |
| 7 days | 95.9% | 100.0% | 95.7% | 92.7% | 92.7% |
| 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 2012. (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 nearly 98 percent, nearly 98 percent, and nearly 97 percent, respectively. Overall satisfaction approached 98 percent. These results exceed the first half of 2011 figures in each category but track just beneath the 2011 year-end totals.

The goal of completing all technical inquiries in less than four weeks was met for the first time during the first half of 2012. (See Table 2.) The percentage of inquiries closed in less than 4 weeks improved over the attainment of 99.9 percent in 2011. The GASB staff will endeavor to maintain this new completion benchmark.

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 almost 96 percent of the inquiries received in the first half of 2012. (See Table 3.) This represents a slight improvement over the level attained in 2011.

The benchmark for making contact within 2 to 6 days 90 percent of the time was exceeded by more than 3 percentage points in the first half of 2012. This is a slight decline over the 2011 figure but a significant improvement over the levels attained in both 2009 and 2010. First contact did not occur until at least a week had passed only 4.1 percent of the time during the first half of 2012. This represents a small improvement over 2011 figures but falls short of the overall GASB goal of following up on 100 percent of inquiries within 7 days.

***Who’s Who at the GASB***

*Last month, the GASB marked the departure of one practice fellow and one postgraduate technical assistant who completed their terms and assumed new positions.*

***Todd Webster,*** who joined the GASB as a practice fellow in July 2010, returned to KPMG, LLP, where he is a senior manager in their New York City office in the Department of Professional Practice. During his tenure at the GASB, Todd was the lead staff member on the projects that led to the issuance of Statements No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* and No. 65, *Items Previously Reported as Assets and Liabilities.* In addition, Todd worked on the pension accounting and financial reporting project leading up to the issuance of the 2011 Exposure Drafts, *Accounting and Financial Reporting for Pensions,* and *Financial Reporting for Pension Plans,* and was a member of the conceptual framework team, the fair value measurement and application team, and the GAAP hierarchy team. He also worked extensively on the *Comprehensive Implementation Guide.*

***Emily Clark*** joined Ernst & Young as a senior associate within the firm’s financial accounting advisory services department in New York, NY. She came to the GASB from The University of Texas at Austin, where she received a bachelor’s degree in business administration, financial reporting, and assurance services, and a master’s degree in accounting. During her tenure at the GASB, Emily worked on Statements No. 67, *Financial Reporting for Pension Plans,* and No. 68, *Accounting and Financial Reporting for Pensions.* She also worked on the *Comprehensive Implementation Guide* and was a member of the fair value measurement and application team.

*Also, in July, the GASB welcomed three postgraduate technical assistants.*

***Joseph Ammon*** came to the GASB from Case Western Reserve University, Cleveland, OH, where he received a bachelor’s degree and a master’s degree in accounting. Joe’s significant project assignments include government combinations and electronic financial reporting. He also will participate in the Financial Accounting Foundation’s post-implementation review process.

***Theodore Minch*** came to the GASB from the University of Southern California, Los Angeles, CA, where he received a master’s degree in public policy. Teddy received a bachelor’s degree in political science and government from Tufts University, Boston, MA. Teddy’s significant project assignments include economic condition reporting and fiduciary responsibility.

***Paul Nabhan*** came to the GASB from The University of Texas at Austin, where he received a bachelor’s degree in business administration, and a master’s degree in accounting. Paul’s significant project assignments include the conceptual framework, the *Comprehensive Implementation Guide,* and leases.

***The GASB Report***

The GASB welcomes feedback on The GASB Report.

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