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

***No. 340 / July 2013***

*(The GASB Report No. 302)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***September 17–19***

***October 29–31***

The GASB also is scheduled to meet via **teleconference** on **August 26** and **October 7.** The precise time, as well as the agenda, will be announced approximately two weeks before each meeting. All meetings, with the exception of the October 29 meeting, which will be held in Boston, Massachusetts, are held at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut.

In addition, the FAF Board of Trustees will meet on August 20 in New York City.

Finally, the GASB will be meeting with the Governmental Accounting Standards Advisory Council on October 28 and 29 in Boston, Massachusetts, in conjunction with the Association of School Business Officials International’s Annual Meeting and Expo.

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.

***New GASB Chairman Dave Vaudt Discusses Initial Priorities in Video***

GASB Chairman Dave Vaudt, who began his term on July 1, discusses his initial priorities for the Board as well as recent Board activities in a video posted to the GASB website, [www.gasb.org](http://www.gasb.org).

Mr. Vaudt is serving a single, seven-year term as chairman. He had served as Iowa’s state auditor since January 2003 until stepping down in April to accept the appointment as chairman of the GASB. Prior to his election as state auditor, Mr. Vaudt worked for 25 years in the Des Moines, Iowa office of KPMG LLP, including 13 years as an audit partner. He replaced former Chairman Robert H. Attmore, who retired from the GASB on June 30 after nine years on the Board.

In the video, Terri Polley, president and chief executive officer of the Financial Accounting Foundation, introduces Russ Golden, new chairman of the Financial Accounting Standards Board, and then introduces Mr. Vaudt, who addresses, among other issues, the GASB’s recent proposals on fair value measurement and application and measurement concepts for assets and liabilities.

To view the video, visit www.gasb.org and click on the podcast link the under the heading *FAF President & CEO Introduces FASB and GASB Chairs.*

***GASB Issues Exposure Draft Addressing Pension Transition Issue***

The GASB recently issued an Exposure Draft addressing the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The proposal would eliminate a potential source of understatement of beginning net position and expense in a government’s first year of implementing Statement 68.

The issue relates to amounts associated with contributions made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability.

Statement 68 requires an employer or nonemployer contributing entity to recognize a net pension liability measured as of a date no earlier than the end of its prior fiscal year. If an employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government’s reporting period, Statement 68 requires that the contribution be recognized as a deferred outflow of resources.

In addition, the Statement requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts for all deferred outflows of resources and deferred inflows of resources, a provision in Statement 68 requires the beginning balances for deferred outflows of resources and deferred inflows of resources not to be reported.

As a result, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability would not be reported as deferred outflows of resources at transition. This could result in a significant understatement of an employer or nonemployer contributing entity’s beginning net position and expense in the initial period of implementation.

To address this potential understatement, the Exposure Draft provides proposed guidance that would require a government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount would be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

***Proposed Effective Date***

The provisions would be effective simultaneously with the provisions of Statement 68, which are required to be applied for fiscal years beginning after June 15, 2014.

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

Copies of the Exposure Draft may be downloaded free of charge at www.gasb.org. The comment deadline is August 26, 2013. Additional details on how to provide comments to the GASB on the proposal are available in the front of the Exposure Draft.

***Board Meeting Summary***

The GASB held a public meeting June 25–27 to discuss issues associated with its projects on Employer Transition Provisions for Pensions, the *Comprehensive Implementation Guide,* Recognition under the Conceptual Framework, Leases, the Hierarchy of Generally Accepted Accounting Principles (GAAP Hierarchy), and Other Postemployment Benefits (OPEB). The Board concluded the meeting with a liaison meeting with members of the American Institute of Certified Public Accountants’ State and Local Government Expert Panel to discuss issues of mutual interest. No deliberations were conducted and no decisions were reached at the liaison meeting.

***Employer Transition Provisions for Pensions***

The Board reviewed a ballot draft of the Exposure Draft, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* After making minor clarifying changes, the Board members voted unanimously to issue the Exposure Draft. (Please see the related article on page 1.)

***Comprehensive Implementation Guide***

The Board reviewed and provided comments on the ballot draft of the *Comprehensive Implementation Guide,* 2013–2014 edition. Many of the proposed changes were a result of the issuance of Statement No. 66, *Technical Corrections—2012,* Statement No. 67, *Financial Reporting for Pension Plans,* Statement No. 68, *Accounting and Financial Reporting for Pensions,* or Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.*

The material associated with Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* including questions and answers related to measurement of pension obligations, has been removed for the 2013–2014 edition. The material related to Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* will be removed in the 2014–2015 edition. After discussing clarifying changes, the update to the guide was cleared by the Board for issuance. No Board member objected to the issuance of the Guide.

***Conceptual Framework—Recognition***

The Board resumed deliberations on concepts for recognition of elements in financial statements prepared using the current financial resources measurement focus. The Board discussed various perceived flaws with the current financial resources measurement focus as it presently is applied in governmental funds. The project staff will present at the next meeting a history of this phase of the project and present options for approaching the development of an Exposure Draft on recognition concepts.

***Leases***

The Financial Accounting Standards Board (FASB) project staff on Leases provided the Board with background information on the provisions of the recently released revised FASB Exposure Draft, *Leases.* The session was educational in nature. No deliberations were conducted and no decisions were reached.

***GAAP Hierarchy***

The Board provided comments and recommendations regarding the staff analysis of Chapter 10 of the *Comprehensive Implementation Guide,* which addresses accounting and financial reporting for derivative instruments, on an individual Q&A basis.

***Other Postemployment Benefits***

The Board discussed issues related to an alternative measurement method for calculating an employer’s other postemployment benefit (OPEB) liability for small employers that is not based on an actuarial valuation. The Board tentatively decided that an alternative measurement method should be proposed to be permitted for the measurement of OPEB liabilities.

***GASAC Meeting—June 2013***

Members of the Governmental Accounting Standards Advisory Council (GASAC) met on June 27 and 28, 2013 in New York. The GASAC’s agenda included updates on the activities of the Financial Accounting Foundation (FAF), the GASB’s parent organization, and on projects on the GASB’s current technical agenda and research activities.

GASAC members provided significant feedback to the GASB on the following projects: Recognition Concepts, the Hierarchy of Generally Accepted Accounting Principles (GAAP Hierarchy), Other Postemployment Benefits (OPEB), and Leases. GASAC members also provided feedback on GASB research activities and potential projects. The members of the GASAC addressed tentative decisions made by the GASB in these projects (if applicable) and offered input on open questions that the Board will address in the future.

With respect to the Recognition Concepts project, GASAC members offered feedback on the conceptual issues associated with the current financial resources measurement focus—the measurement focus used by governmental funds—as presently applied. The council’s input will be considered by the Board as it continues to evaluate the measurement focus for governmental funds.

Regarding the GAAP Hierarchy project, members of the GASAC provided input on major tentative decisions made since the GASAC meeting in February 2013, including those regarding the Board’s approach to evaluating the individual questions and answers in the *Comprehensive Implementation Guide* (CIG) prior to the expected due process that would be required to raise the CIG in the GAAP hierarchy. In addition, GASAC members provided input on the Board’s tentative decisions to retain Technical Bulletins in the second level of the authoritative hierarchy. The Board is scheduled to issue an Exposure Draft on the GAAP hierarchy in the first quarter of 2014.

Addressing the OPEB project, GASAC members offered input on major tentative decisions reached since the February 2013 GASAC meeting, including with respect to the timing and frequency of OPEB measurements and actuarial valuations, expense recognition, and implicit rate subsidies in the projection of OPEB. The Board is scheduled to issue an Exposure Draft on the OPEB proposals in the second quarter of 2014.

In relation to the Leases project, members of the GASAC offered input on various aspects of leasing transactions that are unique to the government environment that the GASAC members believe should be kept in mind during Board deliberations. The Financial Accounting Standards Board (FASB) issued a revised Exposure Draft on leases in May 2013. Because much of the GASB’s current guidance on leases is based on the FASB’s guidance, the GASB determined it would be appropriate to reassess the lease accounting and financial reporting guidance at this time. The Board is scheduled to issue an Exposure Draft in the project in the final quarter of 2014.

GASAC members also provided input to the GASB regarding GASB research activities and potential projects. The specific research activities addressed were Electronic Financial Reporting, Tax Abatement Disclosures, and Fiduciary Responsibilities. Members of the GASAC provided input with respect to a number of potential projects ranked highly in the potential project prioritization exercise conducted at the February meeting.

The next GASAC meeting is scheduled to be held on October 28 and 29 in Boston, Massachusetts in conjunction with the annual meeting of the Association of School Business Officials International. Additional information about the projects referenced above is available at [www.gasb.org](http://www.gasb.org).

***About the GASAC***

The GASAC is responsible for consulting with the GASB on technical issues on the Board’s agenda, project priorities, matters likely to require the attention of the GASB, and other such matters as may be requested by the GASB or its chairman. The GASAC’s 30 members are appointed by the FAF Trustees primarily from nominations by GASB constituent groups and are broadly representative of the preparers, auditors, and users of state and local governmental financial information.

***Technical Inquiry Activities: Service Efforts and Accomplishments Report for First Half of 2013***

***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 2013, with comparative information for 2010 through 2012.

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*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Total****1/13–6/13** | **GASB****Goals** | **Total****2012** | **Total****2011** | **Total****2010** |
| **Measure** |
| Answers to technical inquiries were  understandable or very easy to  understand |  |  |  |  |  |
|  |  |  |  |  |
| 99.0% | 90.0% | 99.0% | 98.9% | 95.6% |
|  |  |  |  |  |  |
| Person responding to technical inquiry  was helpful or very helpful |  |  |  |  |  |
| 98.0% | 90.0% | 99.5% | 98.9% | 97.8% |
|  |  |  |  |  |  |
| Person making technical inquiry was  satisfied or very satisfied with  promptness of response |  |  |  |  |  |
|  |  |  |  |  |
| 99.0% | 90.0% | 99.5% | 98.3% | 96.7% |
|  |  |  |  |  |  |
| Overall, person making technical inquiry  was satisfied or very satisfied with the  experience |  |  |  |  |  |
|  |  |  |  |  |
| 99.0% | 90.0% | 98.0% | 98.9% | 94.5% |

*Table 2. Time Required to Complete Inquiries*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Technical inquiries closed within:** | **Total****1/13–6/13** | **GASB****Goals** | **Total****2012** | **Total****2011** | **Total****2010** |
|  |  |  |  |  |  |
| 0–6 days | 88.4% | 80.0% | 86.9% | 93.8% | 84.0% |
|  |  |  |  |  |  |
| 7–13 days | 97.1% | 90.0% | 96.5% | 99.3% | 95.5% |
|  |  |  |  |  |  |
| 14–20 days | 99.5% | 95.0% | 98.7% | 99.9% | 98.1% |
|  |  |  |  |  |  |
| 21–27 days | 99.9% | 100.0% | 99.3% | 99.9% | 99.1% |
|  |  |  |  |  |  |
| 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****1/13–6/13** | **GASB****Goals** | **Total****2012** | **Total****2011** | **Total****2010** |
|  |  |  |  |  |  |
| 1 day | 72.7% | 60.0% | 69.0% | 71.2% | 65.1% |
|  |  |  |  |  |  |
| 2–6 days | 93.0% | 90.0% | 92.7% | 93.8% | 90.2% |
|  |  |  |  |  |  |
| 7 days | 96.3% | 100.0% | 95.2% | 95.7% | 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 above the GASB’s goals in the first half of 2013. (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 99 percent, 98 percent, and 99 percent, respectively. Overall satisfaction was 99 percent. These results exceed the first half of 2012 figures in each category and track very closely with 2012 and 2011 year-end totals.

The goal of completing all technical inquiries in less than 4 weeks was missed by 0.1 percent in the first half of 2013. (See Table 2.) However, the percentage of inquiries closed in less than 4 weeks improved over the 99.3 percent registered in 2012. The GASB staff is working hard to achieve a 100 percent rating.

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 more than 96 percent of the inquiries received in the first half of 2013. (See Table 3.) This represents an improvement of more than 1 percent over the level attained in 2012.

The benchmark for making contact within 2 to 6 days 90 percent of the time was exceeded by 3 percentage points in the first half of 2013. This is a slight increase over the 2012 figure and tracks just behind the 2011 level. First contact did not occur until at least a week had passed 3.7 percent of the time during the first half of 2013. This represents a small improvement over 2012 figures but falls short of the overall GASB goal of following up on 100 percent of inquiries within 7 days.

***Governmental Accounting Research System™ Online Is Now Available***

Earlier this year, the GASB launched a new online version of the *Governmental Accounting Research System*™ (GARS Online). Previously available only on CD-ROM, GARS Online provides efficient, effective, and easy access to all U.S. Generally Accepted Accounting Principles and related literature for state and local governments. GARS Online is available through several service plans to accommodate the varying needs of different stakeholders.

GARS Online offers new advanced navigation and special features, including annotations and bookmark utilities, advanced search functionality, tabbed browsing, and archive features. The online platform contains the same GASB content as the disc version, including:

• **Original Pronouncements—Governmental Accounting and Financial Reporting Standards**—including the original versions of GASB Statements, Concepts Statements, Technical Bulletins, and Interpretations, with National Council on Governmental Accounting pronouncements and selected American Institute of CPAs materials.

• **Codification of Governmental Accounting Standards and Financial Reporting Standards**—an integrated view of the current version of accounting and financial reporting standards for state and local governments, organized by: General Principles, Financial Reporting, Specific Balance Sheet and Operating Statement Items, and Stand-Alone Reporting—Specialized Units and Activities.

• **Comprehensive Implementation Guide—Questions and Answers**—a compilation of questions and answers and illustrative material developed to assist financial statement preparers and attestors in the implementation and application of selected GASB pronouncements.

• **Topical Index**—a cross-reference to currently effective guidance in documents included in the Original Pronouncements, sections of the Codification, and questions in the *Comprehensive Implementation Guide.*

GARS Online is available through four service plans:

• **Professional View/Single User Annual Service**—Includes one set of credentials and fully functional access. Annual Service: $390.00 (multiple user service also available).

• **Academic Professional View**—The FAF will provide access to GARS Online Professional View at no cost, in a joint initiative with the American Accounting Association (AAA), to faculty and students in accounting programs at post-secondary academic institutions.

• **Basic View**—Free access to all of the content available for Professional View, with limited navigation and features.

Current GARS CD-ROM subscribers may change to the new online version if they wish. Please call (800) 748-0659 for additional information on GARS Online.

***Who’s Who at the GASB***

*The GASB recently marked the arrival of a project manager.*

***Jialan Su*** joined the GASB as a project manager from the New York office of CohnReznick LLP, where she was an audit manager. Prior to that position, Jialan was an audit manager at Brown Armstrong Certified Public Accountants in Bakersfield, California, where she worked with clients including counties, cities, school districts, transit districts, other special-purpose districts, and public employee retirement systems. Jialan received a master’s degree in economics from California State University, East Bay, and a bachelor’s degree in economics, majoring in international trade, from Sichuan University, Chengdu, Sichuan, China.  Her assignments include the Fair Value Measurement and Application and Leases projects. Jialan is a certified public accountant in California and New York.

*Also, three postgraduate technical assistants recently began their terms at the GASB.*

***Meredith Hightower*** came to the GASB from the University of Texas at Austin, where she received a master’s degree in professional accounting. Meredith received a bachelor’s degree in accounting and international business from the University of Georgia at Athens. Her significant project assignments include the Conceptual Framework, the *Comprehensive Implementation Guide,* and Electronic Financial Reporting.

***Christopher Teats*** came to the GASB from Pennsylvania State University, University Park, Pennsylvania, where he received a master’s and a bachelor’s degree in accounting. Chris’s significant project assignments include Economic Condition Reporting, Leases, Fiduciary Responsibilities.

***Kathryn Walsh*** came to the GASB from Indiana University, Bloomington, Indiana, where she received a master’s and a bachelor’s degree in business administration. Kathryn’s significant project assignments include Fair Value Measurement and Application, Leases, and the Post-Implementation Review process.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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