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

***No. 312 / March 2011***

*(The GASB Report No. 274)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***April 12–14***

***May 23–25, Washington, DC (Hotel Rouge, 1315 16th Street, NW)***

The GASB also is scheduled to meet via **teleconference** on **May 3** and **June 14.** 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 FAF Trustees will meet on May 25 in Washington, D.C.

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.

***William W. Holder Named Dean of the Leventhal School of Accounting***

Former GASB Board member William W. Holder has been appointed dean of the Leventhal School of Accounting at the University of Southern California, effective July 1.

Dr. Holder retired from the GASB upon completing his second five-year term in June 2010. He joined the GASB in July 2000 and served the full 10 years allowed as a Board member.

***GASB Research Brief Examines Timeliness of State and Local Financial Reporting in Comparison with User Needs***

In March, the GASB released a research brief that examines how long it takes state and local governments to issue financial reports prepared in conformity with generally accepted accounting principles (GAAP), and how the passage of time affects the usefulness of the financial information for users.

With respect to time-to-issuance, the GASB reviewed the financial reports of the 50 states, the 100 largest counties and localities, and the 50 largest independent school districts and special districts for the 2006–2008 reporting periods. The findings contained in the research brief, *The Timeliness of Financial Reporting by State and Local Governments,* indicate that the largest local and county governments and independent school districts issued their financial reports approximately six months after the fiscal year-end on average. State governments averaged closer to seven months to issue their reports, while special districts averaged about four months. On the whole, 73 percent of the largest governments issued their reports within 6 months, while 2 percent took more than 1 year.

Examination of a random selection of smaller governments drawn from the list of 89,527 governments included in the 2007 Census of Governments found that smaller county governments took an average of 8 months to issue their financial reports—about 2 months longer than their larger counterparts, while smaller local governments were on a par with their larger local governments with an average issuance of 6 months after year-end. Smaller special districts averaged six months, or about two months longer than larger special districts. The smaller independent schools examined issued their reports in less than five months on average, or about six weeks faster than their larger counterparts. On the whole, under 46 percent of the smaller governments examined issued their reports within 6 months, and 7 percent took more than 1 year.

While GASB research found that financial report information retains some degree of usefulness to municipal bond analysts, legislative fiscal staff, and researchers at taxpayer associations and citizen groups for up to six months after the fiscal year-end, afterward the relative usefulness declines rapidly. Fully 89 percent of respondents to a GASB survey rated information received within 45 days as “very useful,” but that proportion fell to 44 percent for information received within 3 months, and to 9 percent for information received within 6 months.

The GASB identifies timeliness as one of the six qualitative characteristics that financial information is expected to possess if it is to communicate effectively. While the GASB does not require that GAAP-based financial reports be issued within a specific timeframe, the GASB does consider timeliness when developing its standards of accounting and financial reporting. Even though the GASB does not set benchmarks related to timeliness, the intended result of setting accounting and financial reporting standards is the communication of decision-useful information. This continues to be a central concern for the Board as it strives to balance the benefits of information to its users with the cost of providing that information. This study is the first part of the GASB’s existing research efforts to better understand the dynamics of financial reports presentation and the factors that determine time-to-issuance.

*The research brief,* The Timeliness of Financial Reporting by State and Local Governments Compared with the Needs of Users, *is available for free download at the GASB website,* [*www.gasb.org*](http://www.gasb.org)*.*

***Board Meeting Summary***

The GASB held a public meeting at its office in Norwalk, Connecticut, on March 1–3 to discuss issues associated with its projects on pension accounting and financial reporting, recognition and measurement attributes under the conceptual framework, fiscal sustainability as it relates to economic condition reporting, deferred inflows of resources and deferred outflows of resources, and government combinations.

The Board also met via teleconference on March 22 to review and consider for clearance a proposed Exposure Draft of the American Institute of Certified Public Accountants Audit and Accounting Guide: *Health Care Entities; Chapter 15, Unique Considerations of State and Local Government Health Care Entities,* and to discuss issues associated with its projects on pension accounting and financial reporting and the statement of net position. 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.

***Pension Accounting and Financial Reporting***

The Board discussed issues related to accounting by cost-sharing employers, refinements to the description of the methodology that will be required for the determination of service cost, and the timing and frequency of measurements reported by employers or defined benefit pension plans.

With regard to cost-sharing employers, the Board first discussed whether standards for accounting and financial reporting should be based on the view that employers in a cost-sharing plan are responsible for the collective unfunded pension obligation. The Board tentatively decided that the liability is generally the responsibility of the employers.

In considering circumstances in which the employers are responsible for the collective unfunded pension obligation, the Board tentatively affirmed its preliminary view that each employer in a cost-sharing plan has a share of the collective unfunded pension obligation that meets the definition of a liability in Concepts Statement No. 4, *Elements of Financial Statements,* and that the employer’s share of the collective unfunded pension obligation is measurable with sufficient reliability for recognition.

With regard to measurement of the collective net pension obligation, pension expense, and deferred pension outflows (inflows) that will be allocated to individual employers, the Board tentatively agreed that the measurement and attribution approaches that tentatively have been agreed to for measuring the net pension liabilities of sole and agent employers should be used.

With respect to elements of the attribution methodology that would be required to be used to assign service cost to periods, the Board tentatively decided that an employer’s net pension liability should be required to be based on calculations of service cost made on an employee-by-employee basis, and that attribution of service costs for all benefits should be made over periods beginning in the period in which the employee is hired and ending in the period in which the employee reaches the single, assumed retirement age that is applied to all employees. The Board also tentatively decided that attribution methods that calculate service cost for different periods based on different measures of the present value of projected benefits should not be permitted. Finally, the Board tentatively decided that the attribution method in the Exposure Draft should specify that differences between actual and expected experience reduce or increase the total pension liability.

Regarding the timing and frequency of pension measurements, the Board discussed issues related to both employer reporting and single-employer and agent multiple-employer plan reporting.

With respect to employers, the Board tentatively affirmed its preliminary view that both components of the net pension liability—the total pension liability and the measure of plan net assets—should be recognized as of the date of employers’ financial statements. It also tentatively reaffirmed that biennial comprehensive measurements should be required, and more frequent measurements should be encouraged.

The Board tentatively agreed that the comprehensive measurement need not be as of the employer’s or the plan’s fiscal year-end(s). Updates of the total pension liability from the comprehensive measurement date to the employer’s fiscal year-end tentatively would be permitted, as long as the comprehensive measurement used as the basis for the update is not as of a date more than 24 months prior to the employer’s fiscal year-end.

If significant changes occur between the comprehensive measurement date and the employer’s fiscal year-end, professional judgment should be used to determine the extent of procedures needed to update the measurement to the employer’s fiscal year-end and should include consideration of whether a new comprehensive measurement is needed. The Board also noted that, at the employer’s fiscal year-end, valuation of investments that do not have readily determinable market values might require estimates.

The Board also tentatively agreed that all information about the net pension liability that would be required to be disclosed in notes or presented in required supplementary information should be measured as of the date of the employer’s financial statements.

With regard to single-employer and cost-sharing multiple-employer defined benefit pension plans, the Board tentatively decided that information that is required to be disclosed in notes or presented in required supplementary information related to the net pension liabilities of the employer(s) should be reported as of the plan’s fiscal year-end.

***Conceptual Framework—Recognition and Measurement Attributes***

The Board reviewed an initial draft of the Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches.* After offering various suggestions to improve the document, the Board requested that the staff prepare a preballot draft of the Preliminary Views for review at the April meeting.

***Economic Condition Reporting: Fiscal Sustainability***

The Board discussed the appropriate bases, methodologies, assumptions, and period(s) for projecting fiscal sustainability information. The Board tentatively agreed that the most appropriate basis to use when projecting fiscal sustainability information would be current policy with known changes that are effective in future periods. These known changes represent policy changes that have been formally adopted at the end of the reporting period but will not be effective until future periods.

The most appropriate methodology for making projections of fiscal sustainability information, the Board tentatively agreed, would be projections informed by historical information and known future events or conditions.

In addition, the Board reached a tentative agreement that a principles-based approach for providing guidance on how to identify and develop assumptions would be most appropriate. This principles-based approach would not specifically identify the assumptions necessary for projecting fiscal sustainability information. The Board also tentatively agreed that the proposed principles would require assumptions to be:

• Consistent with each other and the information used as the basis for the assumptions

• Informed by relevant historical information and known events and conditions

• Comprehensive by including significant trends, events, and conditions.

The Board also reached a tentative agreement to propose that the assumptions used by the government in making projections be disclosed.

Finally, the Board tentatively agreed that for external reporting purposes, annual projections for a minimum period of five years would be most appropriate for projecting all types of fiscal sustainability information.

In considering where fiscal sustainability information would best be communicated, the Board tentatively agreed that all specific measures and related disclosures are essential for placing the basic financial statements and notes to basic financial statements in an operational or economic context and, consequently, the Board will propose that this information be communicated as required supplementary information in an annual financial report or comprehensive annual financial report.

Some Board members expressed the alternate view that some specific measures of fiscal sustainability information and related disclosures are useful but not essential for placing the basic financial statements and notes to basic financial statements in an operational or economic context. Some of those Board members believe that such fiscal sustainability information should be communicated as supplementary information in the annual financial report or comprehensive annual financial report.

The Board also tentatively agreed that all governmental entities should be required to report fiscal sustainability information and that no entities would be exempt based on this proposal. However, the Board will request feedback from respondents in the Preliminary Views on whether a phased-in implementation approach should be considered.

***Deferred Inflows of Resources and Deferred Outflows of Resources***

The Board continued deliberations on the deferred inflows of resources and deferred outflows of resources—omnibus project, beginning its analysis of individual balances and determining whether those balances should continue to be classified as an asset or liability, or reclassified as deferred outflows or deferred inflows of resources. The Board determined that, based on Concepts Statement No. 4, *Elements of Financial Statements,* an item also may be reclassified as an outflow or inflow of resources of the current period, if the item does not meet the definition of an asset or a liability, and it is not applicable to future periods.

Advance payments made by a provider—excluding any time requirements—in government-mandated and voluntary nonexchange transactions as described in Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* are an example of balances the Board tentatively decided should be classified as an asset. Payments made to other governments related to government-mandated and voluntary nonexchange transactions when time requirements are the only eligibility requirements that have not been met by the other government under Statement 33 are an example of balances the Board tentatively decided should be classified as a deferred outflow. Advance payments received related to derived tax revenue nonexchange transactions under Statement 33 are an example of balances the Board tentatively decided should be classified as a liability. Payments received prior to the appropriate period related to imposed nonexchange transactions as described in Statement 33 are an example of balances the Board tentatively decided should be classified as a deferred inflow.

***Government Combinations***

The Board discussed the existing accounting and financial reporting guidance related to government combinations. The Board considered the proposed scope of the project and tentatively agreed to the following types of transactions that would be initially considered in the project:

• Acquisitions of one government by another government

• Mergers of two or more governments

• Spin-offs

• Annexations

• Redistricting

• Dissolutions

• Shared service arrangements.

The Board also tentatively agreed to an overall project approach in which government combinations that do not involve the giving and receiving of reasonable consideration would first be addressed, and afterward, government combinations that do involve reasonable consideration would be deliberated.

***GASAC Meets in Norwalk***

Members of the Governmental Accounting Standards Advisory Council (GASAC) met on March 3 and 4 at the Financial Accounting Foundation (FAF) offices in Norwalk, Connecticut. The Council’s agenda included updates on the activities of the FAF and on projects on the GASB’s current technical agenda. This was the first meeting under new GASAC chairman Marty Benison, comptroller of the Commonwealth of Massachusetts, who represents the National Association of State Auditors, Comptrollers and Treasurers.

GASAC members provided significant feedback on issues associated with several projects, including pension accounting and financial reporting, economic condition reporting—fiscal sustainability, and the deferred inflows and deferred outflows of resources—omnibus. The GASAC members addressed tentative decisions made by the GASB in these projects and offered input on open questions that the Board will address in the future.

GASAC members also provided input to the GASB regarding their individual priorities with respect to the GASB’s technical plan. The project prioritization discussion of research projects and potential projects ranked financial guarantees, fiduciary responsibilities, fair value measurement, leases, and the GAAP hierarchy at the top of the members’ priorities for the GASB’s technical agenda.

The annual discussion about the relative priorities of potential projects for the GASB technical plan is an important part of the agenda formation process. The prioritization discussion is timed to take place shortly before the Board’s first consideration of the technical plan each year. As a result, the GASAC’s input feeds directly into the Board’s consideration of the technical plan. Ultimately, determinations about which projects will be added to the research and current agendas are made by the GASB chairman.

The next GASAC meeting is scheduled for June 29 and 30 in Norwalk, Connecticut.

***Comprehensive Implementation Guide Mid-Year Supplement Now Available***

The mid-year supplement to the 2010–2011 *Comprehensive Implementation Guide* is now available. The supplement, which was developed to assist financial statement preparers and attestors in the implementation and application of a number of GASB pronouncements, presents questions and answers regarding life insurance reported as investments, credit risk disclosures, and derivative instruments. Moreover, it provides additional derivative instrument illustrations.

*The supplement is available for free download on the GASB website,* [*www.gasb.org*](http://www.gasb.org)*.*

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

Managing Editor: Christine L. Klimek

Email: clklimek@f-a-f.org

Editor: Kip Betz

Email: jcbetz@gasb.org

Write: 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116

Telephone: (203) 847-0700

GASB website address: www.gasb.org

***Subscription questions and address changes:***

Barbara Diliberto

Email: bldiliberto@f-a-f.org

Fax: (203) 847-6045

***To order GASB publications:***

(800) 748-0659 or [www.gasb.org](http://www.gasb.org)