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

*No. 326 / May 2012*

*(The GASB Report No. 288)*

***GASB Calendar***

The GASB has scheduled the following public meeting dates:

***July 10–12***

***August 22–24***

The GASB also is scheduled to meet in Seattle, Washington in conjunction with the American Public Power Association’s National Conference on **June 18** and via teleconference on **July 30.** 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 meeting with the Governmental Accounting Standards Advisory Council on June 18 and 19 in Seattle, Washington, in conjunction with the American Public Power Association’s National Conference.

Also, 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 Holds Public Hearings on Financial Projections Preliminary Views***

This spring, the GASB held two public hearings on the Preliminary Views*, Economic Condition Reporting: Financial Projections.* The first public hearing was held on March 29 in Los Angeles, California, and the second was held on April 17 in East Elmhurst, New York.

The GASB holds public hearings to allow the Board an opportunity to better understand constituent input through question and answer sessions with respondents and listening to the rationale behind positions provided in response to questions asked about the Board’s proposals.

During the two public hearings, the GASB received testimony from 23 individuals and organizations, including financial report users, preparer organizations, and other interested parties. The participants expressed a wide range of opinions, including those that supported the Board’s preliminary views on financial projections as they relate to economic condition reporting and those that disagreed in varying degrees with those preliminary views.

Testifiers in agreement with the Board’s preliminary views indicated that the proposed guidance will assist users in assessing a governmental entity’s economic condition and, more specifically, fiscal sustainability. Further, these testifiers stated that supplementing the annual financial report (AFR) with information necessary to assess a government’s ability to generate inflows of resources necessary to honor current services and to meet its financial obligations as they become due, without transferring financial obligations to future periods that do not result in commensurate benefits, provides users with more comprehensive financial information and allows for more informed decision making.

Testifiers in disagreement with the Board’s preliminary views do not support the proposal for one or more of the following reasons: (1) they assert that the reporting of financial projections is not within the scope of the GASB; (2) they believe the reporting of financial projections conflicts with GASB Concepts Statement No. 1, *Objectives of Financial Reporting;* (3) they contend the information necessary for users to assess fiscal sustainability is already included in the AFR or comprehensive annual financial report, budget documents, official statements, or other sources; or (4) they believe the costs of preparing and reporting financial projections outweigh the benefits.

The Board approved the Preliminary Views for public comment in November and received 170 written responses. The Board will receive an overview of constituent feedback received to date at its June 1 meeting. Redeliberations are expected to begin at the July meeting to consider the input received during the comment period and through these public hearings and then determine the next steps in this project.

***Board Meeting Summary***

The GASB held a public meeting on April 18–20 in Norwalk, Connecticut, to discuss issues associated with a number of projects, including those on pension accounting and financial reporting, financial guarantees, the measurement and application of fair value, and recognition and measurement approaches under the conceptual framework.

The Board also met via teleconference on May 7 to discuss issues related to its project on pension accounting and financial reporting.

***Pension Accounting and Financial Reporting***

In its pension accounting and financial reporting project, the Board continued its deliberation of issues raised by respondents to the Exposure Drafts, *Accounting and Financial Reporting for Pensions* (Employer Exposure Draft) and *Financial Reporting for Pension Plans* (Plan Exposure Draft).

***Note Disclosures and RSI for Single or Agent Employers and for Trusts***

***Note Disclosures for Single or Agent Employers***

The Board discussed respondent comments received about each of the note disclosure proposals for single and agent employers that were included in the Employer Exposure Draft and made the following tentative decisions:

• Disclosure of the total (for all plans) amount of net pension liabilities, pension-related deferred outflows of resources and deferred inflows of resources, and pension expense should be required if those amounts are not otherwise presented.

• The Exposure Draft proposal that would require reported amounts for a primary government and its component unit(s) that provide pensions through the same single-employer or agent pension plan to be identified separately in the reporting entity’s financial statements should be retained in the final Employer Statement.

• Disclosure of information that provides a description of the benefits should be carried forward to the final Employer Statement.

• Disclosures related to the significant assumptions used to measure the net pension liability generally should be carried forward to the final Employer Statement.

• With regard to note disclosures about assumptions related to the discount rate, the Board tentatively agreed to require that the following information be presented:

– Assumptions made about contributions of the employer and employees and about other projected cash flows into and out of the plan

– The long-term expected rate of return on plan investments and a description of how the long-term expected rate of return on plan investments was determined

– The municipal bond index rate and identification of the index selected, if the discount rate incorporates a municipal bond index rate

– The periods of projected benefit payments to which the long-term expected rate of return and the municipal bond index rate were applied to determine the discount rate

– The effects on the current-period net pension liability of a 1-percentage-point increase and a 1-percentage-point decrease in the discount rate.

• Disclosure of a schedule of changes in the net pension liability and additional supporting information about certain individual line items in that schedule, information about the components of pension expense, information about changes in the pension-related beginning deferred outflows of resources and beginning deferred inflows of resources balances, and information about allocated insurance contracts should be carried forward to the final Employer Statement.

***RSI for Single or Agent Employers***

The Board discussed respondent feedback about the Employer Exposure Draft proposal for the presentation of RSI schedules, including feedback about the number of years of information that was proposed to be presented in those schedules. The Board tentatively agreed to retain the proposed requirements for schedules containing liability-related information (a schedule of changes in the net pension liability and a schedule of pension liability ratios). It also was tentatively agreed that the final Employer Statement should permit the presentation of a *single* schedule containing the information from those two proposed schedules.

The Board tentatively agreed to retain the proposed requirement that employers with an actuarially determined contribution present an RSI schedule of employer contributions. The Board also tentatively affirmed an earlier tentative decision that employers without an actuarially determined contribution should *not* be required to present an RSI schedule of employer contributions. For all schedules of RSI that would be required, the Board tentatively affirmed that information for the past 10 years should be reported and that the schedules may be developed prospectively.

The Board also discussed the measurement date for information presented in schedules of RSI and tentatively agreed that measurement of the information in the schedule of changes in the net pension liability and the schedule of pension liability ratios should be coordinated with the measurement date for the net pension liability recognized in each period.

***Coordination of Note Disclosures and RSI between Single or Agent Employers and Pension Trust Financial Reports***

The Board considered respondent suggestions to permit employers to refer to the separately issued financial reports of trust funds used to administer pensions in place of presenting information directly in the note disclosure or RSI presentations of the employers.

The Board tentatively agreed that, with the exception of notes related to plan net position, employers should present all of the required notes and RSI, regardless of whether a separately issued financial report that contains the same information from the perspective of the pension trust is available. The Board also tentatively agreed to retain the proposed provisions that direct employers to minimize the presentation of duplicate information if the employer includes the pension trust in its financial report.

***Pensions Provided through Cost-Sharing Plans***

The Board considered respondent feedback on issues related to the Employer Exposure Draft proposal that individual cost-sharing employers should recognize their proportionate share of the collective net pension liability of all employers in a cost-sharing plan. With regard to which entity or entities should be viewed to have primary responsibility for accounting and financial reporting purposes for the unfunded obligation to employees for pensions provided through cost-sharing plans, the Board considered alternative approaches to viewing the relationships of the employers, employees, plan, sponsor, and governmental nonemployer contributing entities (GNCEs) and tentatively affirmed its view that for accounting and financial reporting purposes, the employers should be viewed as collectively having primary responsibility for the unfunded obligation as a result of the employment exchange transactions.

With regard to the involvement of GNCEs that have a legal requirement to make contributions directly to a trust used to administer a pension plan, the Board tentatively affirmed that unless the GNCE’s requirement to contribute directly to the trust used to administer the pension plan is defined in terms of a dedicated revenue stream (conditional), the GNCE’s requirement to contribute (unconditional) should be viewed as an assumption of the net pension liability of the employer(s). However, if the GNCE’s conditional requirement to contribute is the only contribution to the plan, it should be reported similar to an unconditional requirement.

In addition, the Board affirmed its tentative view that a cost-sharing employer’s or nonemployer contributing entity’s obligation relative to the collective unfunded pension obligation meets the definition of a liability in Concepts Statement No. 4, *Elements of Financial Statements—*that is, a present obligation to sacrifice resources that the entity has little or no discretion to avoid.

**Measurement and Recognition Issues**

***Net Pension Liability***

The Board tentatively affirmed that the collective net pension liability for benefits provided through a cost-sharing plan should be measured under the same requirements as tentatively were agreed to by the Board for measurement of single and agent employer net pension liabilities.

With regard to liabilities that should be recognized by individual cost-sharing employers and nonemployer contributing entities that are identified as assuming a portion of the net pension liability of the employer(s), the Board tentatively agreed that the provisions related to measurement of an individual employer’s proportionate share of the collective net pension liability also should be applied to measurement of a nonemployer contributing entity’s proportionate share of the net pension liability of the employer(s).

The Board tentatively agreed that the final Employer Statement should require a cost-sharing employer to recognize as its net pension liability a measure of the present value of its portions of projected future individual-employer contributions that are projected to satisfy the collective net pension liability. If the application of the direct approach is not practical, the Board tentatively agreed that the final Employer Statement should permit other allocation methods to be applied. For example, an employer’s net pension liability could be measured by (1) calculating the employer’s proportion in relation to all employers using an approach that is associated with the manner in which current contributions are assessed to satisfy the net pension liability and (2) multiplying the collective net pension liability by that proportion.

In addition, the Board tentatively agreed that a description of the basis for the determination of an employer’s share of the collective net pension liability should be required to be disclosed in the notes to the employer’s financial statements.

***Pension Expense, Deferred Outflows and Inflows of Resources Related to Pensions***

The Board tentatively agreed that measures of collective pension expense, collective deferred outflows of resources, and collective deferred inflows of resources should be determined under the same requirements as the Board tentatively agreed upon for measurement of those elements for single and agent employers. The Board also tentatively agreed that the final Statement should permit inclusion of collective deferred outflows of resources and collective deferred inflows of resources in collective pension expense over the average expected remaining service life of all employees (active and inactive employees, including retirees), regardless of whether separate components of the collective net pension liability are determined for purposes of determining an individual employer’s proportionate share of that measure.

With regard to the calculation of an employer’s proportionate share of collective pension expense, collective deferred outflows of resources, and collective deferred inflows of resources, the Board tentatively agreed that the final Statement should permit those amounts to be determined by multiplying collective pension expense, collective deferred outflows of resources, and collective deferred inflows of resources by the ratio of the employer’s total net pension liability to the total collective net pension liability.

***Individual-Employer Accounting Adjustments***

The Board tentatively affirmed that a cost-sharing employer should account for (1) the effect of a change in its proportion and (2) the difference between actual contributions to a pension plan and the proportionate share of collective employer contributions recognized as part of the employer’s change in the collective net pension liability, as a deferred outflow of resources or deferred inflow of resources and recognized in pension expense over the same period used to recognize similar changes in the collective net pension liability in that period.

***Timing and Frequency of Cost-Sharing Employer Measures***

The Board tentatively agreed that the final Employer Statement should incorporate the same general timing and frequency modifications as previously tentatively agreed to for single and agent employers. In addition, the Board tentatively agreed that the employer’s share of the proportion should be excluded from the evaluation for significant changes between actuarial valuation dates.

***Note Disclosures for Cost-Sharing Employers***

The Board considered feedback received from respondents to the Exposure Drafts regarding note disclosure and RSI issues that are unique to cost-sharing employers, governmental nonemployer contributing entities, and trusts used to administer cost-sharing pension plans. With regard to a description of the classes of employees covered and the number of employees covered by the benefit terms, the Board tentatively agreed that cost-sharing employers should be required to disclose a description of the classes of employees covered but that the proposal in the Exposure Draft regarding the number of employees covered by the benefit terms, presented separately by employment status, should *not* be included in the final Statement.

With regard to what level of information should be disclosed, the Board tentatively agreed that for each plan in which a cost-sharing employer participates, it should be required to disclose the *overall* proportions of the collective net pension liability, the collective pension expense, the collective deferred outflows of resources, and the collective deferred inflows of resources that are recognized by the employer. In addition, the Board tentatively agreed to carry forward the disclosures for information about the financial effects of measurements related to individual employers with a modification to permit those amounts disclosed to be reported on a net basis in each period.

The Board also tentatively agreed that the final Employer Statement should retain the proposed note disclosure requirements for cost-sharing employers, with modifications tentatively agreed to by the Board with regard to requirements that would be the same for cost-sharing employers as for single and agent employers and for the issues mentioned above.

***RSI for Employers in Cost-Sharing Defined Benefit Plans***

The Board discussed respondent comments received about the Employer Exposure Draft proposals for schedules of RSI for employers in cost-sharing defined benefit plans and considered at which level the various RSI schedules should be presented. The Board tentatively agreed that the final Employer Statement should not include a requirement for cost-sharing employers to present a schedule of changes in the net pension liability. The Board also tentatively agreed that the final Employer Statement should require cost-sharing employers to present a schedule of pension liability ratios only at the *individual* level as of the net pension liability measurement date.

***RSI for Governmental Nonemployer Contributing Entities***

The Board considered respondent comments received about RSI for GNCEs. The Board tentatively agreed that the final Employer Statement should retain the note disclosure and RSI requirements for GNCEs recognizing a substantial proportion of a net pension liability, with modifications to conform with tentative decisions made for cost-sharing employer notes and RSI requirements. The Board also tentatively agreed that the final Employer Statement should retain the note disclosure and RSI requirements for GNCEs recognizing a less-than-substantial proportion of a net pension liability.

In addition, the Board tentatively agreed that the final Employer Statement should require that GNCEs that have a conditional special funding situation for defined contribution benefits disclose the amount of the liability outstanding at the end of the period, if any, and the name of the plan to which the GNCE contributes.

***Note Disclosures and RSI for Trusts Used to Administer Cost-Sharing Defined Benefit Pension Plans***

The Board considered respondent comments specific to trusts used to administer cost-sharing pension plans and tentatively agreed that, for cost-sharing pension plans, the final Statement for trusts used to administer pension plans should generally retain the requirements proposed in the Plan Exposure Draft, with certain modifications.

***Effective Date and Transition Provisions of the Final Employer and Plan Statements***

The Board tentatively agreed that the final Plan Statement should be effective for all plans for *fiscal years* beginning after June 15, 2013, and that the transition provisions of the Plan Exposure Draft should be carried forward to the final Plan Statement.

In addition, the Board tentatively agreed that the final Employer Statement should be effective for all employers and governmental nonemployer contributing entities for *fiscal years* beginning after June 15, 2014.

***Financial Guarantees***

In its project addressing financial guarantees, the Board discussed issues related to recognition of liabilities resulting from extending financial guarantees as a result of nonexchange transactions in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The Board tentatively agreed that liabilities resulting from the extension of financial guarantees as a result of nonexchange transactions should be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting in the period the liabilities are normally expected to be liquidated with expendable available financial resources.

The Board also discussed transition and effective dates for the proposed Statement and agreed its provisions should be applied retroactively except for requirements related to disclosure of cumulative payments made or received as a result of financial guarantees. For such disclosures, the Board tentatively agreed that prospective application would be permitted. The Board tentatively agreed the effective date of the proposed Statement should be for periods beginning after June 15, 2013, with early application encouraged.

***Fair Value Measurement and Application***

In its project on fair value measurement and application, the Board discussed Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) literature that pertains to the cost approach in measuring fair value and some of the current uses for this specific approach. The literature at issue describes the cost approach as the amount that would be required currently to replace the service capacity of an asset, usually through acquisition or construction of a substitute asset.

As it pertains to governments, the cost approach is most notably used by pension plans and endowments that use alternative investments. Those investments may report business combinations or property, plant, and equipment that do not have market prices or identifiable cash flows. Taking the FASB guidance on fair value as a starting point for the GASB’s project, the Board tentatively agreed that a fair value standard should include a cost technique as substantively presented in the *FASB Accounting Standards Codification*®. In order to alleviate confusion over terminology in the GASB literature, references to *replacement cost* would be deleted.

After discussing the potential for a present value project, the Board tentatively agreed that this issue warrants its own project and that it should not be fully incorporated within the scope of the fair value measurement and application project. Present value topics should only be included to the extent that they are used in a fair value measurement. The Board discussed the present value material presented in FASB Topic 820, Fair Value Measurement, and tentatively decided to include the substance of the “general principles” as part of the standard.

The Board also initiated a discussion on fair value disclosures, again using the FASB and IASB literature as a starting point. Rather than focusing exclusively on fair value disclosure issues for discussion at the upcoming May meeting, the Board tentatively agreed to move toward preparation of a draft Standards section that will reflect the tentative decisions made to date.

***Recognition and Measurement Approaches under the Conceptual Framework***

In its project addressing recognition and measurement approaches under the conceptual framework, the staff presented the Board with the results of interviews conducted with users of governmental financial statements at the request of the Board at the November meeting to gather feedback on the Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches.*

The Board discussed the responses collected in the interview process and decided that it had received sufficient feedback on the Preliminary Views to continue project deliberations. Project deliberations will continue at the July 2012 meeting.

***Terry K. Patton Named Dean of the Dillard College of Business Administration***

Former GASB Research Manager Terry K. Patton has been appointed dean of the Dillard College of Business Administration at Midwestern State University in Wichita Falls, Texas, effective July 1. At the time of his nomination, Dr. Patton was an associate professor of accounting at Midwestern State University and held the Robert Madera Professorship. Prior to returning to academia, he served as GASB research manager from 2001 to 2007. Previous to that position, Dr. Patton worked as an assistant professor of accounting at the University of Wisconsin–Oshkosh. He spent the two prior years at the GASB as a project manager.

***The GASB Report***

The GASB welcomes feedback on *The GASB Report.*

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