



## SEC Posts Proposed GASB Support Fee in Federal Register

On Monday, January 9, the U.S. Securities and Exchange Commission posted in the Federal Register a proposal from the Financial Industry Regulatory Authority, or FINRA, outlining a method to collect a fee to support the Governmental Accounting Standards Board. This proposal is open for public comment. The proposal may be downloaded at [www.nasact.org/downloads/2012-84\\_finra\\_gasb.pdf](http://www.nasact.org/downloads/2012-84_finra_gasb.pdf).

The Federal Register notice appears to be virtually identical to FINRA's Regulatory Notice 11-28, which was released in June 2011. NASACT responded to the June notice in a letter dated August 1, 2011 ([www.nasact.org/downloads/CRC/LOC/08\\_11-GASB\\_FINRA\\_Funding\\_Proposal.pdf](http://www.nasact.org/downloads/CRC/LOC/08_11-GASB_FINRA_Funding_Proposal.pdf)).

In the August letter, NASACT was supportive of the proposed GASB support fee methodology in Regulatory Notice 11-28, indicating that it was fair and equitable and would provide a stable source of funding for GASB. NASACT members did request, however, that FINRA make it clear that the support fee should not be passed on to issuers.

As outlined on page 1124 of the Federal Register notice, FINRA did *not* issue a blanket exemption to issuers. FINRA indicates that it has long recognized that its members pass fees through to customers, and FINRA rules generally do not address the commercial allocation of fees between members and their customers. FINRA does note that transactions from a municipal securities issuer to an underwriter are not reported to the MSRB and thus would not generally be counted toward a member's quarterly assessment.

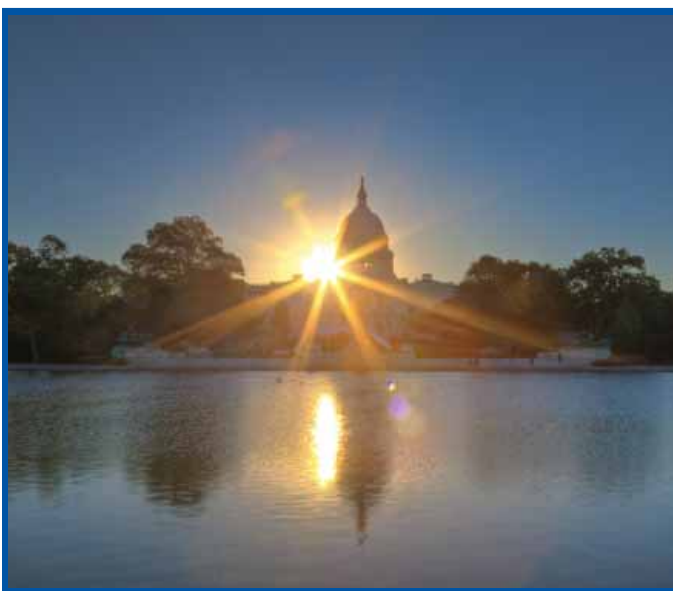
The SEC is seeking comments on the proposal by January 30, 2012. Instructions for how to respond to the SEC are outlined on page 1124 of the notice. NASACT will be preparing an association response to the notice. Please send your comments to the SEC and copy your response to Kinney Poynter at NASACT at [kpoynter@nasact.org](mailto:kpoynter@nasact.org).

The effective date of the new GASB support fee will be the date of SEC approval, which at this point is uncertain. According to Sec. III of the notice, on page 1124, the effective date and timing for action is as follows:

*Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:*

- (A) By order approve or disapprove such proposed rule change, or
- (B) Institute proceedings to determine whether the proposed rule change should be disapproved.

Questions about the Federal Register notice should be directed to Cornelia Chebinou at (202) 624-5451 or Kinney Poynter at (859) 276-1147. ■



### NASACT Members: Your Input Is Requested!

1. See FINRA's Regulatory Notice 11-28 ([www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p123792.pdf](http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/notices/p123792.pdf)) and NASACT's response to the notice ([www.nasact.org/downloads/CRC/LOC/08\\_11-GASB\\_FINRA\\_Funding\\_Proposal.pdf](http://www.nasact.org/downloads/CRC/LOC/08_11-GASB_FINRA_Funding_Proposal.pdf)) for background on the issue.
2. Download and review the SEC's posting in the Federal Register regarding the support fee for GASB ([www.nasact.org/downloads/2012-84\\_finra\\_gasb.pdf](http://www.nasact.org/downloads/2012-84_finra_gasb.pdf)).
3. Provide your input on the proposal to the SEC using the instructions on page 1124 of the Federal Register notice.
4. Please send a copy of your response to the SEC to Kinney Poynter at [kpoynter@nasact.org](mailto:kpoynter@nasact.org).

# Association Notes

## NASC to Meet in OKC in March

The National Association of State Comptrollers will hold its thirty-first annual conference in Oklahoma City on March 21-23.

Richard Eckstrom, comptroller general of South Carolina and chair of the Program Committee, is working with the committee to develop an agenda that will address many of the issues being faced by state governments. The committee has reviewed the results of the survey of topics and is developing the program to meet the needs and interests of the respondents.

The program will include a state budget update from Scott Pattison, executive director of the National Association of State Budget Officers. Robert Attmore, chairman, and David Bean, director of research and technical services, both from the Governmental Accounting Standards Board, are scheduled to provide a GASB update. Nancy DiPaolo, assistant director of congressional and intergovernmental affairs with the Recovery Accountability and Transparency Board, will address the topic of Transparency in Federal Funding—Not Just a Buzzword Anymore. The program will also include sessions about cloud computing and utilizing new technologies, data analysis vs. data collection, fighting fraud on new fronts, and other relevant topics.

The program includes a roundtable on each day of the conference. The roundtables will address issues including:

### Federal/State Issues

- DATA Act: federal cost sharing requirements and strategies for statewide ERP implementations.
- SWCAP: maximizing the benefit to the states.
- Circular A-87.
- Increases in IRS levies.
- Lessons learned from states undergoing an IRS audit/review.

### Operational Effectiveness

- Effective use of estimated accruals.
- Obtaining information from component units.
- Other faster financial reporting issues.
- Use of Microsoft Project to improve communications and checklists.
- Lessons learned from ERP implementations.
- Pension accounting.

### General Topics

- Fraud related to the use of debit/credit cards.
- TIN matching at the state level: use, benefits and suggested improvements.
- Health insurance, Medicaid and waivers.
- Aging workforce/lack of budget to replace FTEs.
- Transparency and social media.
- Strategies for responding to the economic downturn.

The roundtables are an excellent opportunity for attendees to discuss issues and share problems and solutions with their peers.

### Hotel and General Information

The conference hotel is the Skirvin Hotel. The room rate is \$129 for single or double (plus taxes). **The cut-off date to make reservations at the group rate is February 18.** To make your reservations, call (888) 490-6546 and ask for the NASC group rate. Questions about the program may be directed to Kim O’Ryan (koryan@nasact.org); questions about the hotel may be addressed to Donna Maloy (dmaloy@nasact.org). Kim and Donna may also be reached at (859) 276-1147. ■

**Note:** *The winner of the drawing for a free NASC conference registration was Steven Valasek (IL).*

## NASC 2012 Schedule of Events

### Tuesday, March 20

- NASACT Executive Committee
- NASC Committee on Accounting and Financial Reporting
- NASC Executive Committee

### Wednesday, March 21

- Conference sessions
- Comptroller’s roundtable

### Thursday, March 22

- Conference sessions
- Comptroller’s roundtable
- NASC business meeting

### Friday, March 23

- Conference sessions
- Comptroller’s roundtable

### Travel Assistance

\$750 of travel assistance will be made available to state comptrollers or their designees (members in good standing or new state comptrollers) to attend. Reimbursements will be made following the conference.

### Call for NASC Resolutions

Resolutions for consideration at the NASC annual conference should be sent to Resolutions Committee Chair John Reidhead (UT) at jreidhead@utah.gov or Kim O’Ryan at koryan@nasact.org. Please send resolutions **by Friday, March 2.**

### Call for NASC Roundtable Topics

NASC will hold three roundtable sessions at the conference, one each day on March 21, 22 and 23. Suggested topics are still being accepted and should be emailed to Kim O’Ryan at koryan@nasact.org **by Friday, March 2.**

## Association Notes

### NASACT Announces Two-Part Webinar Series on Implementing the AICPA's "Super SAS"

NASACT, in conjunction with the Association of Government Accountants and the Association of Local Government Auditors, is pleased to announce a two-part webinar series on implementing the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 122. The first webinar, *Clarifying the Clarity Standards: An Overview*, will be held on February 29. Part two, *Clarifying the Clarity Standards: Group Audits*, will be held on May 2.

It has been years in the making, but with the issuance of SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, the AICPA's Auditing Standards Board completed a major portion of its "Clarity Project."

SAS No. 122, also known as the "Super SAS," brings together and codifies 39 clarified SASs that the ASB had finalized, but had not issued, during the past three years. Because the Clarity Project spanned several years, some of the earlier clarified standards needed to be updated to reflect, among other things, amendments to certain SASs and changes in SAS titles, terminology, and formatting that were introduced towards the latter part of the project. In preparation for SAS No. 122, the clarified SASs were reviewed and refined to identify and eliminate inconsistencies and to verify cross-references.

SAS No. 122 also adds a preface to the codification of the statements on auditing standards titled *Principles Underlying*

*an Audit Conducted in Accordance With Generally Accepted Auditing Standards*. These principles provide a framework that is helpful in understanding and explaining an audit. Further, these principles address the purpose of an audit, the personal responsibilities of the auditor, the auditor's actions in performing an audit, and auditor reporting.

The February 29 webinar, will provide an overview on:

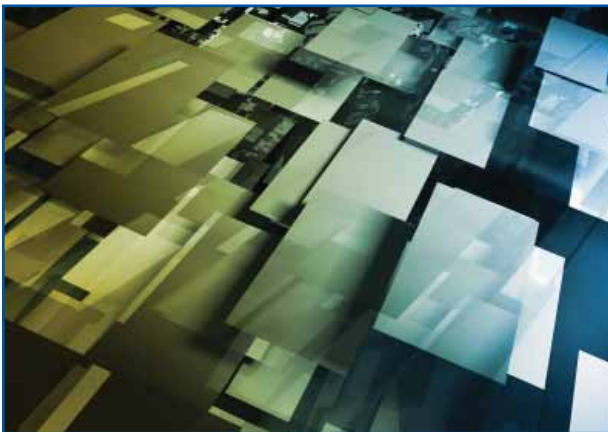
- Which standards changed?
- Which standards are still being worked on?
- How much is different?
- How will the new standards affect my audits?
- What do I need to know now?

This webinar will discuss the answers to those questions and allow you the opportunity to ask your own.

Join Randy Roberts, professional practice director for the Arizona Office of the Auditor General, for this informative two-hour training session. Randy served as a member of the Auditing Standards Board from 2008 through 2010 during the majority of the deliberations of the Clarity Project. He has served, and continues to serve, on various AICPA task forces.

Part 2 of the webinar series will explain the new concept of "group audits" and the impact it will have on auditors of government entities. Instructors for the May 2 webinar will be Randy Roberts and Jeff Markert, partner, Department of Professional Practice, KPMG. More details will be forthcoming on part two of the webinar series.

Registration for both webinars is now available on NASACT's website at [www.nasact.org](http://www.nasact.org). ■



**Feb 29** *Clarifying the Clarity Standards: An Overview*  
2:00 - 3:50 p.m. Eastern Time

**May 2** *Clarifying the Clarity Standards: Group Audits*  
2:00 - 3:50 p.m. Eastern Time

**CPE (each):** Two credits

**Cost (each):** \$249.00 per group (unlimited attendance)  
or \$50 per person

**Register:** Register for one or both of these webinars  
today at [www.nasact.org](http://www.nasact.org)

### News From GAO: Yellow Book Released, Dates Set for Audit Forum

The U.S. Government Accountability Office recently announced the release of the December 2011 revision to *Government Auditing Standards*. This revision supersedes the 2007 revision. An electronic version of this document and any

interpretive publications can be accessed at [www.gao.gov/yellowbook](http://www.gao.gov/yellowbook).

The 19th Biennial Forum of Government Auditors will be held in Alexandria, Virginia, on June 26-28, 2012. Should you have any questions, please contact Luis Escalante at (214) 777-5693 or [escalantel@gao.gov](mailto:escalantel@gao.gov). Additional information about the forum will be posted at [www.auditforum.org](http://www.auditforum.org) in late January. ■

## New at [www.nasact.org](http://www.nasact.org)

- NASC technical inquiries on the following topics at [www.nasact.org/nasc/technical/index.cfm](http://www.nasact.org/nasc/technical/index.cfm) (members only content):
  - Meetings and Related Food Purchases
  - Third-Party Recovery Audits
  - Accounting Systems and Public Higher Education
- NSAA technical inquiries on the following topic at [www.nasact.org/nsaa/technical/index.cfm](http://www.nasact.org/nsaa/technical/index.cfm) (members only content):
  - Data Matches to Identify Fraud, Waste and Abuse
  - Statutory Authorities and Responsibilities Related to Fraud
- NASACT's response to the Governmental Accounting Standards Board's exposure draft on *Technical Corrections*, an amendment of GASB Statements No. 10 and No. 62, at [www.nasact.org/nasact/positions/GASB.cfm](http://www.nasact.org/nasact/positions/GASB.cfm).
- NASACT's response to Part 1 of the U.S. Government Accountability Office's survey on municipal market disclosure at [www.nasact.org/downloads/12\\_15\\_11-GAO\\_Survey\\_Municipal\\_Securities\\_Disclosure.pdf](http://www.nasact.org/downloads/12_15_11-GAO_Survey_Municipal_Securities_Disclosure.pdf).

## Directory Updates Requested

NASACT is currently updating its online and printed member directories. The directory lists each state auditor, state comptroller and state treasurer; view the listings at [www.nasact.org/nasact/directory/index.cfm](http://www.nasact.org/nasact/directory/index.cfm). To provide updates to your office's listing, email Glenda Johnson at [gjohnson@nasact.org](mailto:gjohnson@nasact.org).

## NSAA Accepting Award Submissions, Seeks Judges

NSAA is now accepting submissions for the 2012 Excellence in Accountability Awards. Awards will be given in four categories:

1. Performance Audits: Large (2,000 + audit hours)
2. Performance Audits: Small (< than 2,000 audit hours)
3. Forensic Reports (***new category in 2012***)
4. Special Projects

Submissions are due by 5:00 p.m. Eastern time on ***Wednesday, February 29***. All entries must be submitted electronically. Award winners will be recognized at the NSAA annual conference in June in Madison, Wisconsin.

### Volunteers Needed for Judging

NSAA is also seeking volunteers to help in the judging process. Judges can be NSAA principals or their designees. Please note that judges are not eligible to submit an entry in a category in which they are participating as a judge. For information on submitting an award entry or becoming a judge, email Sherri Rowland at [srowland@nasact.org](mailto:srowland@nasact.org).

## NASACT Executive Committee Meets Tuesday, March 20

NASACT's Executive Committee next meets in Oklahoma City, Oklahoma, on Tuesday, March 20 in conjunction with the 2012 NASC Annual Conference.

## Mark Your Calendar: Upcoming Information Sharing Calls

### NASACT Members or Staff:

For information on participating in any of these calls, contact NASACT's headquarters office at (859) 276-1147.

### January

- NASC Internal Control Information Sharing – January 26

### February

- NASACT Committee on Accounting, Reporting and Auditing (CARA) – February 7
- NASC Payroll Information Sharing – February 8
- NASC Travel and P-Card Information Sharing – February 15
- NSAA Performance Audit Information Sharing – February 16
- NASC Paperless Accounts Payable Information Sharing – February 23
- NASC Transparency Information Sharing – February 28

### April

- NSAA Human Resources Information Sharing – April 25

## MSRB Hosts 2012 Roundtable

The Municipal Securities Rulemaking Board hosted its 2012 industry roundtable on January 13, providing municipal market groups a venue for discussing emerging issues and activities related to the municipal market. NASACT was represented by Nancy Kopp, state treasurer of Maryland and NASACT's immediate past president; Kinney Poynter, executive director; and Cornelia Chebinou, Washington director.

The meeting began with a representative from each organization briefly discussing topics and activities under consideration within their organization or among their members. Not surprisingly, most organizations listed regulations relating to the Dodd-Frank Act, including the proposed SEC definition of municipal advisors, as issues they are watching. Additionally, almost every participant noted preservation of the tax exemption for municipal bonds among their priority items. NASACT reported on the work of its Committee on Accounting, Reporting and Auditing which is reviewing barriers and opportunities

to faster financial reporting in light of growing interest in the topic by the federal government. NASACT also shared statistics on how long it takes state governments to complete their comprehensive annual financial reports and noted that the timeliness is improving.

Before the meeting concluded, participants discussed direct bank loans and whether they should be considered municipal securities. There appears to be an increasing use of these products, and it was determined that more guidance is needed. The Government Finance Officers Association is spearheading a best practice in this area considering the disclosure responsibility of both the issuer and the bank and looking at the risks involved with direct loan transactions.

The next scheduled annual roundtable will be held in January 2013; however, the group determined that it may be in the best interests of the industry groups to meet again in early summer.

Questions about NASACT's participation in the roundtable may be directed to Ms. Chebinou at [cchebinou@nasact.org](mailto:cchebinou@nasact.org) or (202) 624-5451. ■

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## MSRB Seeks Members, Announces Outreach Efforts, Publishes Annual Report

The Municipal Securities Rulemaking Board unveiled several new plans this month, first announcing a request for applicants to fill seven board positions. These new board members will begin their three-year terms on October 1, 2012. Members of the 21-member board represent the public as well as regulated municipal dealer and municipal advisor industries. The group is seeking to elect four individuals representing the public and three individuals representing regulated entities. Applicants representing the public must be independent members of the general public who are knowledgeable about the municipal securities market. Applications for the available board positions may be submitted until March 1 at [www.msrb.org/About-MSRB/MSRB-Board-of-Directors/Board-of-Directors-Application-Instructions.aspx](http://www.msrb.org/About-MSRB/MSRB-Board-of-Directors/Board-of-Directors-Application-Instructions.aspx).

The MSRB also announced its 2012 education and outreach schedule. These events will provide an opportunity for industry professionals to learn about the MSRB's fiscal year 2012 operating objectives and its rulemaking efforts for municipal advisors and dealers. All MSRB educational seminars are open to the public and municipal securities market stakeholders, including regulated entities, investors, and municipal entities. Representatives from the MSRB will discuss initiatives the MSRB is undertaking in support of its mission to protect investors and municipal entities, including rulemaking, market transparency and education activities. The program also will include updates on the MSRB's implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The first event will be held on February 22 in Dallas, Texas. The second

and third events will be held in Chicago in April and in San Francisco in July.

The agenda for the first event in Dallas can be found at [www.msrb.org/msrb1/events/Outreach/Dallas-Agenda-2-22-2012.pdf](http://www.msrb.org/msrb1/events/Outreach/Dallas-Agenda-2-22-2012.pdf).

Additionally, the MSRB published its 2011 Annual Report. The report detailed activities aimed at achieving the MSRB's investor and municipal entity protection mission and for implementing the municipal market provisions of the Dodd-Frank Act. Highlights from the report include:

- New rulemaking initiatives undertaken to protect state and local governments and investors.
- Recent enhancements to the MSRB's Electronic Municipal Market Access (EMMA) website.
- Municipal market data collected and disseminated by the MSRB.
- MSRB leadership efforts to ensure the fair and efficient operation of the municipal market.
- Outreach events conducted by the MSRB to communicate developments to market stakeholders about the Dodd-Frank Act and solicit input from market participants on MSRB rulemaking initiatives.

In late 2011, the MSRB unveiled its "State and Local Government Toolkit." As of October 1, 2010, the Dodd-Frank Act expanded the mission of the MSRB to include the protection of municipal entities and obligated persons; the toolkit was designed to move forward on that mission by providing issuers with information on issuing bonds, as well as continuing disclosure requirements.

The toolkit can be found at [www.msrb.org/MSRB-For/Issuers/Issuer-Toolkit.aspx](http://www.msrb.org/MSRB-For/Issuers/Issuer-Toolkit.aspx). ■

## IRS Releases Tax Gap Report

This month the Internal Revenue Service released a new study on the tax gap, which is defined as the amount of tax liability faced by taxpayers that is not paid on time. Over the years, Congress has attempted to close this gap with legislative fixes, such as enhanced 1099 reporting (repealed in the fall of 2011) or the recently repealed three percent withholding requirement (repealed in November 2011), all of which have been ineffective and inefficient ways to address the issue. The new tax gap estimate represents the first full IRS update in five years, and it shows the nation's compliance rate is essentially unchanged from the last review covering tax year 2001. According to the report, under-reporting of income remains the biggest contributing factor to the tax gap. Net tax gap amounts were \$385 billion in 2006, up from \$290 billion in 2001.

The IRS reached its conclusions using the following

methodologies applied to the three tax gap components (non-filings, under-reportings and underpayments):

- Some growth in the tax gap estimate is attributed to better data and improved estimation methods.
- The IRS developed a new econometric model for estimating the tax gap attributable to small corporations, which was then applied to newer operational data.
- Large corporation tax gap estimates for 2006 are based on improved statistical methods and updated data.
- The data related to individual income taxpayers continues to improve based on improved estimation techniques and newer data.

The report contains a tax gap map highlighting areas of concern and where updated data has been utilized. The map can be found at [www.irs.gov/pub/newsroom/tax\\_gap\\_map\\_2006.pdf](http://www.irs.gov/pub/newsroom/tax_gap_map_2006.pdf).

Details of the report and additional materials can be found at [www.irs.gov/newsroom/article/0,,id=252038,00.html](http://www.irs.gov/newsroom/article/0,,id=252038,00.html). ■

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## Municipal Securities Report Released

On January 17, the U.S. Government Accountability Office released the report entitled *Municipal Securities: Overview of Market Structure, Pricing, and Regulation*. A summary from GAO is available below. This is the second of three muni-related studies required of GAO in the Dodd-Frank Act. The full report (91 pages) can be found at [www.gao.gov/products/GAO-12-265](http://www.gao.gov/products/GAO-12-265).

GAO is currently working on the third study contained in Section 976 of the act examining disclosure requirements and an examination of the Tower Amendment. GAO recently completed the first part of a two-part survey associated with this study. To see NASACT's response to part one of the survey, visit [www.nasact.org/downloads/12\\_15\\_11-GAO\\_Survey\\_Municipal\\_Securities\\_Disclosure.pdf](http://www.nasact.org/downloads/12_15_11-GAO_Survey_Municipal_Securities_Disclosure.pdf). NASACT will be requesting that members participate in part two of the survey when it becomes available. ■

### What GAO Found

In the secondary market for municipal securities, both institutional and individual investors trade through brokers, dealers, and banks (broker-dealers). However, GAO analysis of trade data showed that institutional investors generally trade at more favorable prices than individual investors. Broker-dealers said these differences generally reflected the higher average transaction costs associated with trading individual investors' smaller blocks of securities. Market participants added that institutional investors have more resources, including networks of broker-dealers, and the expertise to independently assess prices. In recent years, the Municipal Securities Rulemaking Board (MSRB)—an SRO that writes rules regulating the broker-dealers that trade municipal securities—has required timely and public posting of trade prices in an effort to make post-trade price information more widely available. However, unlike the equities market, the relatively illiquid municipal market lacks centrally posted and continuous quotes, and other sources of pre-trade price information are not centralized or publicly available to individual investors. In 2010, SEC began a review of the municipal securities market, in part to examine pre-trade price information. MSRB has also begun a study that includes a review of the market structure to determine whether access to additional pre-trade price information could improve pricing and liquidity. Both SEC and MSRB plan to complete these studies in 2012.

Several regulators share responsibility for overseeing the municipal securities market. The Financial Industry Regulatory Authority (FINRA)—an SRO that regulates 98 percent of the broker-dealers that trade municipal securities—and federal banking regulators enforce broker-dealer compliance with MSRB rules under their respective jurisdictions through electronic surveillances of trade data and routine examinations. SEC evaluates the quality of FINRA and MSRB's municipal regulatory programs through its SRO inspection program, which has recently evolved to a risk-based approach. SEC last inspected MSRB and FINRA's fixed-income surveillance program, which encompass municipal securities trading, in 2005. SEC staff said that staffing constraints have prevented them from conducting inspections of these SROs sooner, although they have recently begun a new inspection of FINRA's fixed-income surveillance program. SEC's limited monitoring of FINRA and MSRB between inspections may not be sufficient to support its new risk-based inspection approach. For example, SEC's last inspection of FINRA's fixed-income surveillance program predated the financial crisis—and its ensuing volatility in the municipal market—but SEC had collected limited information since its last inspection that would help it assess the quality of FINRA's broker-dealer oversight. SEC currently receives periodic reports from FINRA that provide statistical information on its regulatory activities related to municipal securities trading. According to SEC staff, while they might be able to use the reports to identify significant deviations in FINRA's efforts, they cannot use them solely to determine the effectiveness of FINRA's municipal securities program. Without ongoing collection and analysis of information to assess the effectiveness of SROs' regulatory programs, SEC may be unable to identify and act on regulatory problems in a timely manner.

### What GAO Recommends

GAO recommends that SEC collect and analyze information on SROs' fixed-income regulatory programs on an ongoing basis to better inform its risk-based inspection approach. SEC agreed, but noted it would need additional resources to conduct more frequent oversight of the SROs. Such ongoing monitoring, however, could help SEC better leverage its resources for inspections. ■



## GASB Update, January 2012

### GASB Presents Preliminary Views on Financial Projections

In December, the Governmental Accounting Standards Board issued a preliminary views document, *Economic Condition Reporting: Financial Projections*, presenting the Board's initial views on the key issues related to reporting financial projections and the accompanying narrative that will assist users in assessing a government's economic condition.

The project focuses on forward-looking information that would provide users of governmental financial reports with information they need to assess a government's current financial health and its ability to continue to meet its commitments going forward. GASB research indicates that while users of state and local governmental financial statements find it important to understand a government's past and present economic condition, they also need forward-looking information to aid them in assessing a government's fiscal sustainability. The information that the Board's preliminary views would yield is not predictions or forecasts of what is likely to take place but, rather, projections that use historical and known information and extrapolate that information into the future.

Broadly speaking, the GASB's larger economic condition reporting project is concerned with improving the communication of decision-useful information to financial statement users about a governmental entity's:

- Financial position—the status of assets, liabilities, deferred outflows and inflows of resources, and net position, as of a point in time.
- Fiscal capacity—the ability and willingness to meet financial obligations as they come due on an ongoing basis.
- Service capacity—the ability and willingness to meet commitments and provide services on an ongoing basis.

It is the Board's preliminary view that economic condition and fiscal sustainability are related and that economic condition is broader than fiscal sustainability. Fiscal sustainability is the forward-looking aspect of economic condition. The Board's preliminary view defines *fiscal sustainability* as a government's ability and willingness to generate inflows of resources necessary to honor current service commitments and to meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits.

#### The Preliminary Views

The Board's preliminary view is that five components of information are necessary to assist in assessing a governmental entity's fiscal sustainability:

- Projections of total cash inflows and major individual cash inflows, in dollars and as a percentage of total cash inflows, with explanations of the known causes of fluctuations in cash inflows.
- Projections of the total cash outflows and major individual cash outflows, in dollars and as a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows.
- Projections of total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts, with explanations of the known causes of fluctuations in financial obligations.
- Projections of annual debt service payments.
- A narrative discussion of major existing intergovernmental service interdependencies and their nature.

Under the Board's preliminary view, all of these components of fiscal sustainability are essential for placing a government's basic financial statements and accompanying notes in an operational or economic context and would be included as required supplementary information (RSI). Two members of the Board, however, hold an alternative view to the preliminary views document. While these members believe that the development of forward-looking information is within the scope of the GASB and is appropriate for the Board's agenda, they do not believe its reporting is essential and, consequently, do not believe it is appropriate for inclusion in RSI.

Extensive research conducted by the GASB has demonstrated that users of state and local governmental financial statements need a broad range of information to assess a government's financial health in a comprehensive manner and to make their assessment regarding an entity's fiscal sustainability. The Board distilled that information into the five components in its preliminary view.

In addition, projections of inflows and outflows of resources are essential to assessing *interperiod equity*—a government's ability to meet annual spending needs with current-period resources, rather than delaying payments to the future or consuming accumulated resources. Projections of financial obligations reflect the future financial impact of a government's past decisions and help users to evaluate a government's capacity to meet those financial demands as they come due.

Under the Board's working definition of the term, an *intergovernmental service interdependency* exists when one governmental entity provides a service on behalf of another governmental entity or together with one or more governmental entities. The component regarding narrative discussion of major existing intergovernmental service interdependencies would provide users with information to assess the fiscal implications of a major service interdependency and how changes in this major service interdependency may impact a governmental entity's fiscal sustainability.

(article continued, next page)

## How Projections Would Be Done

Annual financial projections would be based on current policy, informed by historical information, and adjusted to incorporate known events and conditions that affect the projection periods. Current policy includes policy changes that have been formally adopted by the end of the reporting period but do not become effective until future periods.

Financial projections would be made for a minimum of five individual years beyond the reporting period for external reporting purposes. Inflows and outflows would be projected on a cash basis of accounting, and financial obligations would be projected on an accrual basis of accounting. Assumptions underlying the projections would be based on historical information, as well as events and conditions that have already occurred and affect the future. The assumptions would be (1) consistent with each other and with the information used as the basis for the assumptions and (2) comprehensive by considering significant trends, events, and conditions.

Disclosures of assumptions would be required in order to help users understand how the financial projections were made and to assess how reasonable they are.

The components of fiscal sustainability information would be reported for the primary government, including both governmental activities and business-type activities with net subtotals for the general fund, other governmental activities, total governmental activities, total business-type activities, and a net total for the entire primary government. Notes to RSI would be necessary in instances when one or more activities are determined to significantly affect the fiscal sustainability of the primary government.

An individual cash inflow, cash outflow, and financial obligation of a governmental or business-type activity would be projected separately if it is viewed as “major,” which means it represents at least 10 percent of total cash inflows, total cash outflows, or total financial obligations, respectively, for all activities of that type in any reported projection period.

All cash outlays for capital and capital-related cash inflows from bond proceeds, capital grants, or other sources restricted or committed to capital outlays would be considered major and reported separately. Any other cash inflow, cash outflow, or financial obligation may be reported as major if the government believes that information is particularly important to users when making an assessment of the primary government’s fiscal sustainability. It would be a matter of professional judgment to determine which intergovernmental service interdependencies are considered major.

Under the Board’s preliminary view, a cautionary notice informing readers that the projections do not represent a forecast or prediction of the most likely outcome would precede the financial projections and related narrative discussion to place the information into context. Because projections are based on assumptions that are inherently subject to uncertainty and changes, the notice would caution that actual future financial results may differ significantly from those reported.

## How to Obtain Copies of the Preliminary Views

The preliminary views document may be downloaded free

of charge from [www.gasb.org](http://www.gasb.org). The comment deadline is March 16, 2012. Additional details on how to provide comments to the GASB and participate in public hearings scheduled for March 29 in Los Angeles and April 17 in New York City are available in the document.

NASACT will be preparing an association position on this PV. Please send your comments for inclusion in NASACT’s response to Kim O’Ryan ([koryan@nasact.org](mailto:koryan@nasact.org)) or Sherri Rowland ([srowland@nasact.org](mailto:srowland@nasact.org)) by Friday, February 17, 2012. Questions may be directed to Kim or Sherri at (859) 276-1147.

## Jan Sylvis Reappointed to the Board and Two New Appointments Named

The Financial Accounting Foundation has announced that **Jan I. Sylvis** has been appointed to a second five-year term as a member of the GASB beginning July 1, 2012. The reappointment was made by the FAF Board of Trustees, which oversees the activities of the GASB and the Financial Accounting Standards Board.

Ms. Sylvis was appointed to her first term with the GASB on July 1, 2007. She has served as the chief of accounts for the state of Tennessee since 1995, functions as the state’s controller, and manages the state’s centralized accounting system. Ms. Sylvis’s new five-year term extends through June 30, 2017.

In addition, the FAF Board of Trustees has appointed **William W. Fish**, a seasoned municipal securities investment manager and analyst, and **James E. Brown**, a veteran auditor of governments, to serve on the GASB in the coming months.

Mr. Fish was named to a term commencing on February 1, 2012. He will replace GASB member Michael D. Belsky, who resigned in October 2011. Mr. Fish served as chief investment officer of Chartis, U.S. (a property and casualty insurance subsidiary of AIG) from 2004 until 2010, where he was responsible for managing \$80 billion in assets.

Mr. Brown was appointed to a five-year term beginning on July 1, 2012. He will succeed outgoing GASB member James M. Williams, whose term expires on June 30. He served for more than 25 years as a partner at BKD, LLP, a large regional public accounting firm, headquartered in Springfield, Missouri.

## New Local Government User Guide Now Available

The newly updated and revised edition of *What You Should Know about Your Local Government’s Finances: A Guide to Financial Statements* is now available. The new guide offers an easy-to-understand primer on the annual financial reports of local governments and includes the major new reporting requirements issued since the publication of the original guide, including those on retiree health insurance and fund balance.

(article continued, next page)

The *What You Should Know* guides include features designed to assist readers at all levels—from those who are new to governmental financial statements to the experienced reader:

- Annotated examples of over 50 financial statements, notes, and schedules.
- A storyline designed to help the reader understand the concepts.
- An introduction to basic financial ratios used to analyze government finances.
- Helpful boxes and sidebars further exploring issues raised in the text.
- An overview of governmental accounting and financial reporting.
- An extensive glossary of terms.

The new local government user guide may be ordered through the store section of the GASB website, [www.gasb.org](http://www.gasb.org). Information about the other guides in the series will be posted as they become available in the coming months:

- *What You Should Know about Your School District's Finances*—revised and updated.
- *An Analyst's Guide to Government Financial Statements*—revised, updated, and significantly expanded.
- *What You Should Know about the Finances of Your Business-Type Activities*—a completely new guide for 2012.

## Recent Board Activity

The GASB met in November and December and held teleconference meetings in November and January to discuss current agenda projects including those addressing financial guarantees and pension accounting and financial reporting.

### Financial Guarantees

In its project on financial guarantees, the Board discussed recognition and measurement issues for a single guarantee extended by a government as a result of a nonexchange transaction and for groups of guarantees extended by a government as a result of nonexchange transactions.

The Board discussed qualitative factors that may indicate that an indemnification payment is more likely than not and agreed that the qualitative factors used may vary depending on whether the guaranteed obligation is secured by an issuing entity's general credit or by a specific pledged revenue source.

In addition, the Board tentatively agreed that, for a single guarantee extended as a result of a nonexchange transaction for which qualitative factors indicate that it is more likely than not an indemnification payment will be made, the amount of the liability should be measured using a cost accumulation approach. The measured amount would be either (a) the best estimate of the amount expected to be incurred to settle the liability, or (b) the minimum amount in a range of estimated values when no amount in the range is better than any other.

Finally, the Board tentatively agreed that, for multiple

guarantees with similar characteristics extended as a result of nonexchange transactions, a government should use the same recognition and measurement requirements as would be applied to a single guarantee.

### Pension Accounting and Financial Reporting

In its project addressing pension accounting and financial reporting, the Board began redeliberations of issues addressed in the exposure draft *Accounting and Financial Reporting for Pensions* (the Employer Exposure Draft), including consideration of comments and testimony received on the Board's proposals.

Specifically, the Board considered issues primarily related to the scope and applicability of the Employer Exposure Draft, the interaction of the proposals with other standards, and the classification of pensions for purposes of applying the provisions of the Employer Exposure Draft. Due to the interrelationship of the Employer Exposure Draft and the exposure draft *Financial Reporting for Pension Plans* (the Plan Exposure Draft), the impact of the issues on proposals in the Plan Exposure Draft also was discussed.

With respect to the scope of the respective exposure drafts, the Board tentatively affirmed its prior decision to exclude both pensions that are not provided through a qualified trust and other postemployment benefits. Those issues are due to be addressed in a later project phase.

The Board also discussed suggestions and concerns raised by respondents related to the criteria for a qualified trust, the definition of *pensions*, and the application of the proposals to pensions provided to volunteers. Related to the three criteria that define a qualified trust, the Board tentatively agreed to make modifications to address respondent comments suggesting that the criteria should be clarified to specifically note that the payment of administrative costs and refunds of employee contributions in accordance with the benefit terms would not cause a trust to fail to meet the criteria to be considered a qualified trust. Further, the Board tentatively agreed to include in the criteria an indication that refunds to employers in the case of employee forfeitures of nonvested balances in a defined contribution pension plan would not violate the criterion. Additionally, the Board tentatively agreed that alternative language for the term *qualified trust* should be explored in order to reduce the possibility of confusion with similar terminology used by the Internal Revenue Service for another purpose.

With respect to the applicability of exposure draft provisions related to benefits provided to volunteers, the Board tentatively decided that language should be included in the final statements to indicate that the standards are intended to apply to such benefits.

With regard to the interaction of the proposals in the exposure drafts with other standards, the Board tentatively agreed to clarify the effect on accounting for compensated absences by amending the codification instructions to specifically exclude contributions to a cost-sharing multiple-employer defined benefit pension plan that is within the scope of the exposure drafts from the

(article continued, next page)

## Schedule of Events

### Saturday, August 11

Golf at Newcastle Golf Club  
Hospitality Open House

### Sunday, August 12

5K Fun Run/Walk Along the Waterfront  
NASACT Executive Committee Meeting  
NASACT CARA Meeting  
Evening Reception at the Museum of Flight

### Monday, August 13

Conference Sessions and Guest Program  
NASC, NSAA and Treasurer Meetings  
Dinner Cruise on Elliot Bay  
aboard the Royal Argasy

### Tuesday, August 14

Conference Sessions and Guest Program  
NASACT Business Meeting  
State Night Dinner at the Hyatt

### Wednesday, August 15

Conference Sessions Until Noon

## NASACT Members: Your Input is Needed!

The NASACT Annual Conference Program is developed from input provided by NASACT members. Watch your email for the conference topics survey to let us know what topics you wish to see covered at the conference!

## Plan Now to Attend NASACT 2012!

Join NASACT President Ron Jones and our Washington State hosts for the 2012 NASACT Annual Conference in Seattle, Washington, this August 11-15. The NASACT Training and Professional Development Committee will begin developing the technical program soon. Watch for the conference topics survey to provide your input!

### Conference Hotel – Grand Hyatt Seattle

The Grand Hyatt Seattle is conveniently located in the heart of downtown Seattle – a short walk from the city's most distinguished boutiques, restaurants, museums and steps away from the Seattle Space Needle, Seattle Waterfront and Pike's Place Market. This year's conference rate is \$169/night plus applicable tax. To reserve your room, call (206) 774-6300 and ask for the NASACT Annual Conference rate.

### Don't Forget the Travel Assistance Program!

NASACT principals (or their designees) are eligible to receive \$1,000 in travel assistance to attend the annual conference. The funds may be used to cover registration or travel costs. Additionally, all new NASACT principals will be offered complimentary registration to attend.

### Conference

The host state is planning a number of special events for conference participants, including a dinner cruise on Elliott Bay. A guest program will also be offered. More information about the conference will be available soon at [www.nasact.org/conferences\\_training/events.cfm](http://www.nasact.org/conferences_training/events.cfm).

## GASB Update (continued from previous page)

measurement of a compensated absences liability. After considering other related respondent suggestions, the Board tentatively agreed not to modify the discussion in the exposure drafts related to the effect of the proposals on the requirements of Statement No. 47, *Accounting for Termination Benefits*.

In discussing issues related to the classification of pensions as either defined benefit or defined contribution plans, the Board tentatively reaffirmed the definitions in the exposure drafts. In addition, the Board tentatively agreed that no modification should be made to the Plan Exposure Draft to include additional

guidance related to the issue of a single trust being used to provide both defined benefit pensions and defined contribution pensions. Such issues will be considered for inclusion in the implementation guide that is planned to be developed following issuance of the final statements. ■

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*The "GASB Update" is provided on a bi-monthly basis for publication in the NASACT News from staff from the Governmental Accounting Standards Board.*

# News From Around the Nation

## NASACT Welcomes New Officials in Several States

### Kentucky



**A**dam Edelen took office as the Kentucky Auditor of public accounts in January. He won the race to replace **Crit Luallen** who was term limited after two four-year terms.

Mr. Edelen has a bachelor of arts in community communications and leadership development from the University of Kentucky, College of Agriculture.

After bringing strong strategic and financial management to the Kentucky Office of Homeland Security, Kentucky Gov. Steven Beshear promoted him to chief of staff. He has also served as a senior executive for Commerce Lexington and Thomas King, Inc.

A former chairman of the board of Kentucky Educational Television, Mr. Edelen was the driving force behind KET's "Be Well Kentucky" initiative. He also chaired the board of the Lexington Urban League, as well as the United Way of the Bluegrass's annual giving campaign. He was the executive force behind New Century Lexington's nationally recognized reports on community livability. Additionally, he was a member of the Prichard Committee for Academic Excellence, an advocacy organization working to improve education for all Kentuckians.

A nationally recognized leader and public servant, he was named the Outstanding Young Kentuckian by the Kentucky Jr. Chamber of Commerce in 2008 and one of the Ten Outstanding Young Americans by the U.S. Junior Chamber of Commerce later that year.

### Mississippi

**Lynn Fitch** took office in January to serve as state treasurer of Mississippi. She replaces **Tate Reeves** who was elected last November as the state's lieutenant governor.

In 2009, Ms. Fitch was selected by Mississippi Gov. Haley Barbour to serve as executive director of the Mississippi State Personnel Board, an agency responsible for directing more than 130 state agencies and overseeing 32,000 employees. During her tenure with MSPB, she worked to ensure the effective use of taxpayer dollars and provide a sense of accountability through transparency of services.

Prior to her time at MSPB, she served as deputy executive director of external affairs and support services at the Mississippi Department of Employment Security.

Ms. Fitch's experience in financial and business matters includes serving as a bond lawyer with a focus on general and municipal bonds. She has served as counsel for the Mississippi House of Representatives' Ways and Means and Local and Private Legislation committees, and as special assistant attorney general with the Mississippi Attorney General's Office.

Ms. Fitch has been recognized for her professionalism and

leadership abilities by several organizations. She has been named one of the 50 Leading Business Women in Mississippi and to the inaugural class of Leadership in Law by the *Mississippi Business Journal*. In addition to these accolades, she has been active in several professional associations including the following: Leadership Mississippi; National Association of Unemployment Insurance Appellate Boards, Board of Governors; National Association of Government Communicators; National Association of State Workforce Agencies; Juvenile Diabetes Research Foundation; National Association of State Workforce Agencies; and National Association of Bond Lawyers.

She holds both a bachelors of business administration and a juris doctorate from the University of Mississippi.

### South Carolina



On December 13, 2011, the Legislative Audit Council appointed **Perry K. Simpson** as the director of the council. Mr. Simpson began his appointment on December 14, 2011, and replaced **George L. Schroeder**, who was serving as interim director after the previous director, **Thomas J. Bardin, Jr.**, passed away on August 27, 2011.

Mr. Simpson has worked at the Legislative Audit Council for over 28 years, serving in various positions, and has been a part of the agency's management team for over 10 years. Most recently, Mr. Simpson served as audit manager for audits of the Employment Security Commission and the James E. Clyburn Transportation Center at South Carolina State University.

Mr. Simpson has a master's degree in mass communication and a B.A. in English from the University of South Carolina.

### Other News

**Kris Curtis** has been named acting legislative auditor in Alaska. Ms. Curtis fills the vacancy left upon the retirement of former legislative auditor **Pat Davidson**.

**Jeffrey C. Vogel** has been named director of the Wyoming Department of Audit. He fills the vacancy left upon the retirement of former director **Michael Geesey**.

**Michael Keays** will be leaving his post as Nebraska's state accounting administrator at the end of January to join the private sector. **Wes Mohling** will serve as interim state accounting administrator at that time.

**Jesus F. Mendez Rodriguez** is the new secretary of the Puerto Rico Department of the Treasury. He replaces the former secretary, **Sandra Rodriguez Gonzalez**.

The state of Kansas has restructured the offices that fulfilled its comptroller function. **Kent Olson**, who previously served as director of the Division of Accounts and Reports, now serves as director of the Department of Administration's Office of Inspector General. The new state comptroller in Kansas is **Martin Eckhardt**, director of the Office of Management, Analysis and Standards. ■

- February 29 ■ Webinar – Clarifying the Clarity Standards Part 1: Overview  
March 21-23 ■ NASC Annual Conference, Oklahoma City, OK  
April 16-18 ■ NASACT Middle Management Conference, Little Rock, AR  
April 24-25 ■ Tennessee Government Training Seminar, Chattanooga, TN  
April 26-27 ■ Tennessee Government Training Seminar, Nashville, TN  
May 2 ■ Webinar – Clarifying the Clarity Standards Part 2: Group Audits  
May 7-8 ■ Tennessee Government Training Seminar, Morristown, TN  
May 10-11 ■ Tennessee Government Training Seminar, Jackson, TN  
June 12-15 ■ NSAA Annual Conference, Madison, WI  
July 18 ■ Webinar – GASB Review: 2012  
August 11-15 ■ NASACT Annual Conference, Seattle, WA  
September 25-28 ■ NSAA IT Workshop & Conference, Nashville, TN

## Plan Now to Attend the NASACT Middle Management Conference!

2012 NASACT Middle Management Conference  
April 16-18 ■ Little Rock, Arkansas

By Donna Maloy, Conference Manager



The 2012 NASACT Middle Management Conference is scheduled for April 16-18, in Little Rock, Arkansas. This conference is tailored to address the training needs of middle management staff in the offices of state auditors and state comptrollers.

The conference is being planned by the NSAA Auditor Training Committee, chaired by Glen Fowler (CA), and the NASC Middle Management Committee, chaired by Greg Griffin (GA). The

committees are currently working to finalize the conference program. Topics will include leadership development, an update on standards from the Governmental Accounting Standards Board and on the Yellow Book, effective writing, performance measures, emerging issues, and roundtables devoted to performance audit, training issues and finance topics. A draft agenda will be available soon.

### Hotel

The Peabody Hotel, located on the banks of the Arkansas River and in the heart of the bustling river market district, has been chosen as the conference hotel. A special negotiated rate of \$88/night has been offered.

### More Information

Questions regarding the 2012 NASACT Middle Management Conference may be addressed to Donna Maloy at [dmaloy@nasact.org](mailto:dmaloy@nasact.org) or (859) 276-1147. Details about the conference can be found at [www.nasact.org/conferences\\_training/events.cfm](http://www.nasact.org/conferences_training/events.cfm). ■

### NASACT News

## JANUARY 2012

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The next issue of *NASACT News* will be published in February 2012. To submit articles, photos or ideas, contact Glenda Johnson by February 10 at [gjohnson@nasact.org](mailto:gjohnson@nasact.org) or phone at (859) 276-1147.