What Would a Federal Government Shutdown Mean For States?

Since Congress failed to pass an FY2011 budget before the end of 2010, the federal government has been running on a series of short-term continuing resolutions to keep operations going and to give lawmakers more time to negotiate budget details. The current resolution is set to expire on March 18.

On March 15, the House passed H.J. Res. 48, a continuing resolution that would fund the federal government for three more weeks, through April 8. It is expected that the Senate will approve the resolution and the nation will gain a brief reprieve from the threat of a shutdown.

States, which receive federal funding for many programs, are in the unfortunate position of having to plan for the worst case scenario. Also on March 15, the National Association of State Budget Officers and the state comptroller members of NASACT held a conference call to explore the impact of a federal government shutdown on state government operations.

The last government shutdown occurred in 1995, when the federal government was actually shut down twice, once for six days and then again for a three-week period. Participants on the March 15 conference call recollected that in 1995 the shutdown mainly represented a cash flow issue for states, but once the shutdown ended, states were reimbursed for expended funds.

However, the political and economic climates of 2011 are quite different from those of 1995, and states must now ask: how would a shutdown affect state operations?

Michael Esmond, state budget director, and Martin Benison, comptroller, of Massachusetts, have issued guidance to agencies in their state to assess exposure should there be a shutdown. They have also asked agencies to reach out to their respective federal granting agencies to ascertain the impacts of a shutdown.

Some states have also reached out to the U.S. Office of Management and Budget for information, but no clear guidance has yet been provided. It was the understanding of those on the call that direction would come from OMB to the federal agencies to allow updates to agency plans in case of a shutdown.

Federal agencies generally follow Section 124 of Circular A-11, “Preparation, Submission, and Execution of the Budget.” Section 124 provides general guidelines for agencies to develop plans for an orderly shutdown in the absence of appropriations. The agency plans must include:

- An estimate of time to complete the shutdown.
- The number of employees expected to be on-board before implementation of the plan.
- Total number of employees to be retained under the plan because (1) they are engaged in military, law enforcement, or direct provision of health care activities; or (2) their compensation is financed by a resource other than annual appropriations.
- Number of employees, not otherwise exempt, to be retained to protect life and property.

In accordance with guidance originally issued in 1981 and reaffirmed by the Department of Justice in 1995 (“Authority for the Continuance of Government Functions During a Temporary Lapse in Appropriations”), agency heads must decide what activities are essential to operate their agencies during an appropriations hiatus. Additionally, agencies must “limit obligations to those needed to maintain the minimum level of essential activities necessary to protect life and property.” States would need to contact their grantor agencies for specific instructions on agency shutdown plans.

In any case, questions remain as to whether states would be able to draw federal funds if a federal shutdown does occur (i.e., Congress fails to enact regular appropriations, a continuing resolution, or needed supplementals, resulting in an interruption of fund availability).

NASACT and NASBO will continue reaching out to get more guidance for states on how to plan for the possibility of a federal government shutdown. In the meantime, those states wishing to see a draft of the guidance issued by Massachusetts to its agencies may do so by emailing Cornelia Chebinou at cchebinou@nasact.org.

There is much uncertainty surrounding this issue. NASACT will continue to keep members apprised as developments occur and negotiations on the federal budget proceed.
New at www.nasact.org

- Observations of the December 7-9, 2010, meeting of the Governmental Accounting Standards Board have been posted at www.nasact.org/nasact/positions/GASB.cfm.

- NASACT’s response letter to the GASB ED on Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position may be found at www.nasact.org/nasact/positions/GASB.cfm.

- The following NASC technical inquiries are now available at www.nasact.org/nasc/technical/index.cfm:
  - Internal Audit Function
  - Payments to Vendors

- The following NSAA technical inquiries are now available at www.nasact.org/nsaa/technical/index.cfm:
  - Style Manual
  - State Auditor Selection Process
  - Pharmacy Benefit Managers Rebate Information
  - Fraud, Waste and Abuse Hotlines

NSAA Seeks Input on AICPA ED’s

**Intended Use of the Auditor’s Written Communication**

The American Institute of Certified Public Accountants’ Auditing Standards Board has released for comment an exposure draft of a proposed statement on auditing standards entitled *Alert as to the Intended Use of the Auditor’s Written Communication*. This proposed SAS would supersede SAS No. 87, *Restricting the Use of an Auditor’s Report*.

The proposed SAS can be found on the AICPA’s website at www.aicpa.org/Research/ExposureDrafts/AccountingandAuditing/Pages/ExposureDrafts_ASB.aspx. Through the Audit Standards and Reporting Committee, NSAA will be responding to this ED. Please send your comments for inclusion in NSAA’s letter to Sherri Rowland at srowland@nasact.org by **Friday, April 1**.

**Omnibus Statement on Auditing Standards**

The AICPA’s ASB has released for comment an exposure draft of a proposed statement on auditing standards (SAS) entitled *Omnibus Statement on Auditing Standards*—2011. This proposed SAS would amend the following SASs:

- SAS No. 117, *Compliance Audits*
- SAS No. 118, *Other Information in Documents Containing Audited Financial Statements*
- Clarified SAS Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards
- Clarified SAS Modifications to the Opinion in the Independent Auditor’s Report

- Clarified SAS Reports on Application of Requirements of an Applicable Financial Reporting Framework
- Clarified SAS The Auditor’s Communication With Those Charged With Governance (Redrafted)
- Clarified SAS Audit Documentation (Redrafted)

On page 7 of the exposure draft is an issue for consideration relating to the appendix to SAS No. 117. This appendix lists AU sections that are not applicable to compliance audits. As such, conforming changes are necessary to align the appendix with the clarified SASs. The conforming changes refer only to the requirements of the relevant AU sections. The ASB believes that because application paragraphs provide guidance on the application of the requirements, the applicability of the application paragraphs would be dependent on the applicability of the requirements paragraphs and therefore need not be separately stated. The ASB is seeking comments on omissions from the list, including any need for references to application material not applicable to compliance audits.

The exposure draft can be downloaded from the AICPA’s website at www.aicpa.org/Research/ExposureDrafts/AccountingandAuditing/Pages/ExposureDrafts_ASB.aspx. Through the Audit Standards and Reporting Committee, NSAA will be responding to this exposure draft. Please send your comments for inclusion in NSAA’s letter to Sherri Rowland at srowland@nasact.org by **Friday, April 22**.

**Ethics Omnibus**

The AICPA’s Professional Ethics Executive Committee has issued an exposure draft entitled *Omnibus Proposal*, *Professional Ethics Division, Interpretations and Rulings*. This exposure draft includes more than 30 proposed new, revised and deleted interpretations, ethics rulings and definitions. This exposure draft includes the following:

- Proposed new Interpretations under Rule 101
- Proposed new definition of Confidential Client Information
- Proposed revision to Applicability
- Proposed revision to Conceptual Framework for AICPA Independence Standards
- Proposed revision to Interpretations under Rule 101
- Proposed revision to an Ethics Ruling under Rule 301
- Proposed revision to an Ethics Ruling under Rule 101
- Proposed deletions of Ethic Rulings under Rules 101, 203, 501, 502 and 505

The exposure draft can be found on the AICPA’s website at www.aicpa.org/InterestAreas/ProfessionalEthics/Community/ExposureDrafts/DownloadableDocuments/2011February28OmnibusProposalExpDraft.pdf. Through the Audit Standards and Reporting Committee, NSAA will be responding to this exposure draft. Please send your comments for inclusion in NSAA’s letter to Sherri Rowland at srowland@nasact.org by **Friday, April 29**.
NASC Annual: Phoenix, March 23-25

The 2011 annual conference of the National Association of State Comptrollers will be held in Phoenix, Arizona, March 23-25, at the Embassy Suites. Clark Partridge, comptroller of Arizona and president of NASC, is hosting the event. Several additional meetings will also be held on March 22:

- NASACT Executive Committee (8:00 a.m. - 12:00 p.m.)
- NASC Committee on Accounting and Financial Reporting (2:00 p.m.)
- NASC Executive Committee Meeting (3:00 p.m.)

Getting There

The Embassy Suites is located 15 miles from the Sky Harbor International Airport. Shuttle service is available from Euro Trans Limousine. Call (602) 439-7413 or visit www.etlimousines.com to make your arrangements.

Conference Materials

Presentation handouts will be made available on NASACT’s website prior to the conference. Please plan to print out any materials you may wish to have onsite with you. You may download handouts at www.nasact.org/conferences_training/nasc/conferences/AnnualConferences/2011AnnualConference/Materials.cfm. Please note that some presenters do not provide their presentations in advance.

Travel Assistance

In order to encourage attendance at the conference, NASACT will provide up to $750 of travel assistance to all state comptrollers in good standing (or their designees). The reimbursement form to receive travel assistance may be downloaded at the link above. Please submit all requests for travel assistance to Lori Slagle, finance manager, at lslagle@nasact.org by Friday, April 29.

NSAA Annual: Williamsburg, June 14-17

Walter Kucharski, Virginia’s auditor of public accounts and president of the National State Auditors Association, invites you to attend the 2011 NSAA Annual Conference to be held in Colonial Williamsburg, Virginia, June 14-17. NSAA’s committees will meet on June 14; conference sessions will begin on June 15.

With budget restrictions making doing business as usual difficult, there is no better time than now to come together with your peers and share ideas, success stories and lessons learned.

Travel Assistance

To help you attend, NASACT is offering $750 of travel assistance funds to each state auditor in good standing (or designee) to attend the conference. Additional assistance will be offered to new state auditors; for more information on assistance opportunities, email Sherri Rowland at srowland@nasact.org.

Technical Program

The NSAA Annual Conference Program Committee will be putting together a slate of sessions to address the pressing issues faced today by state auditors. Gene Dodaro, comptroller general, U.S. Government Accountability Office; Robert Attmore, chair, Governmental Accounting Standards Board; and Marcia Buchanan, assistant director, Government Auditing Standards, GAO, are just a few of the presenters already lined up.

Conference Hotel

The conference will be held at The Williamsburg Woodlands Hotel, located just across from Colonial Williamsburg’s historic area. The negotiated room rate is $129/single or double plus applicable taxes. To book your room, call the hotel at (800) 261-9530 and indicate that you are with the National State Auditors Association. To get this special rate, you must call before the cut-off date of May 13, 2011. After this date, rooms will be offered only on a space- and rate-available basis.

Registration

Online registration is now open, and additional details about the conference are available at www.nasact.org. Questions may be addressed to Donna Maloy at dmaloy@nasact.org or (859) 276-1147. Please plan to attend!

Did You Know? You can find materials, presentations and speaker biographies from past annual conferences of NASC, NSAA and NASACT at www.nasact.org under Conferences and Training. Also, committee rosters, minutes and other materials can be found on NASACT’s website (members only login required to view committee minutes and materials).
Plan Now to Attend NASACT2011!

Join NASACT President Nancy Kopp and our Vermont hosts for the 2011 NASACT Annual Conference in Burlington, Vermont this August 13-17. The NASACT Training and Professional Development Committee is currently working on the technical program. Watch for additional details coming soon!

Conference Hotel - Hilton Burlington

The Hilton Burlington is located on the shores of Lake Champlain in the heart of downtown with easy access to recreation, arts, history, shopping and entertainment. The negotiated rate for this year’s conference is $158/night plus applicable taxes. This offer is guaranteed until the cut-off date of July 21, 2011. To book, call (802) 658-6500 and reference the NASACT Annual Conference.

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 ($600 value).

Visit www.nasact.org/conferences_training/events.cfm for more information!

Schedule of Events

Saturday, August 13
Golf at Basin Harbor Golf Club
Hospitality Open House

Sunday, August 14
5K Fun Run/Walk along Lake Champlain
NASACT Executive Committee Meeting
NASACT CARA Meeting
Evening Reception at Barn at Lang Farm

Monday, August 15
Conference Sessions and Guest Program
NASC, NSAA and Treasurer Meetings
Dinner Cruise on Lake Champlain

Tuesday, August 16
Conference Sessions and Guest Program
NASACT Business Meeting
State Night Dinner at the Hilton

Mark Your Calendar: Upcoming Information Sharing Calls

On May 11, the NASC State Government Payroll call will last from 1:00-4:00 p.m. Eastern time. The call will include presentations from states, a roundtable session, and a discussion with staff from the IRS.

On May 18, the NASC Travel and Purchase Card call will last from 1:00-4:00 p.m. Eastern time. The call will include a presentation from a state, a roundtable session, and presentations from Visa and MasterCard.

March 2011
- NASC Multi-State Consortium on Internal Control – March 31

April 2011
- NASC Federal Tax Reporting Work Group – April 5
- NASC Transparency – April 19
- NASC GASB 54 Work Group – April 20
- NSAA Human Resources – April 28

May 2011
- NSAA Performance Audit – May 5
- NASC State Government Payroll – May 11
- NASC Travel and Purchase Card – May 18

June 2011
- NASACT Committee on Accounting, Reporting and Auditing – June 7
**News From Washington**

**Presidential Memo Aimed at Providing Flexibility to State and Local Governments**

On February 28, President Obama issued a memorandum to federal agencies requesting that they “work closely with state, local and tribal governments to identify administrative, regulatory, and legislative barriers in federally funded programs that currently prevent states, localities and tribes, from efficiently using tax dollars to achieve the best results for their constituents.”

Specifically, the memorandum requires agencies to coordinate and collaborate with state and local governments and identify regulatory and administrative requirements that can be streamlined, reduced or eliminated while also providing a description of how such measures would improve program outcomes. Of note for NASACT members is the directive to:

“Review and where appropriate revise guidance concerning cost principles, burden minimizations, and audits for state, local and tribal governments in order to eliminate, to the extent permitted by law, unnecessary, unduly burdensome, duplicative, or low-priority recordkeeping requirements and effectively tie such requirements to achievement of outcomes.”

The memorandum requires OMB to develop a process for carrying out the directives, particularly regarding coordination with state, local and tribal governments, and also requires federal agencies within 180 days to identify regulatory/administrative requirements to be streamlined, reduced or eliminated.

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**IRS Announces VCAP Relief from Debt Extinguishment for Certain Issuers of Tax-Exempt Bonds**

Internal Revenue Service Announcement 2011-19 provides relief from debt extinguishment for certain issuers purchasing and holding their own tax-exempt securities under the Tax Exempt Bonds Voluntary Closing Agreement Program (TEB VCAP). Notice 2008-41, modified by Notice 2008-88, and extended by Notice 2010-7 to December 31, 2010, provided temporary rules allowing state and local governmental issuers to purchase and hold their own tax-exempt obligations for temporary holding periods. This rule prevented extinguishment of the purchased obligations under § 103 and §§ 141-150 of the Internal Revenue Code (Code). These temporary rules provided relief from liquidity constraints in the tax-exempt bond market during the financial crisis.

For various reasons, some issuers that purchased their bonds under the temporary rules were unable to resell their bonds by December 31, 2010. Other issuers are experiencing an ongoing need to purchase and hold their own tax-exempt obligations due to certain financial challenges.

Closing agreements executed under this program provide that the extinguished bonds are treated as remaining outstanding for purposes of § 103 and §§ 141-150 beginning from the later of January 1, 2011, the expiration of the temporary rules, or the date the issuer purchases its obligations.

The closing agreement will require the issuer to (1) submit a resolution of its intent to resell or currently refund the extinguished tax-exempt bonds no later than 180 days after the closing agreement is signed; (2) submit representations or an unqualified bond counsel’s opinion that the bonds outstanding are legal, valid and binding obligations of the issuer under state law and, if treated as outstanding under the closing agreement, will qualify as tax-exempt obligations of the issuer under § 103 of the Code; and (3) pay a fee based on the formula described in the announcement. The TEB VCAP requests are due no later than December 31, 2012, under the operating procedures described in section 7.2.3 of the Internal Revenue Manual.

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**OMB Establishes Super Work Group to Examine Single Audit and Improper Payments**

The Improper Payments Act is a directive on federal agencies to provide estimates of improper payments in federal programs and to identify obstacles to reducing improper payments, statutory or otherwise. For a number of years, the Office of Management and Budget has been looking for a way to engage states in the effort.

Last year there were several work groups looking at improper payments as a result of a Presidential Executive Order. Two involved state and local participation: one looking at the single audit and changes that could be made legislatively or through the regulatory process and another regarding incentives and accountability, which looked at incentives, particularly surrounding A-87, that could be provided to states to assist in the improper payments initiative.

OMB has now established a super work group to look at the issue. It is believed that some incentives could be provided on A-87 in exchange for some changes to the single audit that might help with the improper payments initiative. Clark Partridge, state comptroller of Arizona, and Randy Roberts, professional practice director in the Arizona Office of the Auditor General, are participating in the super work group on behalf of NASACT. The initiative will look at the recommendations that came out of the 2010 work groups and synthesize the recommendations down to a handful that could be implemented in the short term. The effort is on a fast track with the super work group’s comments on needed legislative and regulatory changes to be given to OMB by mid-April of this year.
The results are in! Forty offices from 32 states responded to the 2011 Washington Issues Survey. These responses are an invaluable asset to NASACT’s Washington office staff, as they help prioritize issues of importance to members and help shape the association’s efforts for the upcoming year. Thanks to all who were able to respond and submit comments.

For detailed results of the survey, or if you have any questions, please contact Neal Hutchko in the Washington Office at (202) 624-5451 or nhutchko@nasact.org.

Five Most Important Issues

- Repeal of the three percent withholding requirement.
- Proposals to amend the Single Audit Act or A-133.
- Public sector pension plans.
- Medicaid and its impact on state budgets.
- Identification of improper payments.

Five Least Important Issues

- Social networks as government applications (e.g., Facebook, Twitter)
- Results in auditor/comptroller/treasurer elections.
- Issues drawing down federal funds.
- International convergence of accounting standards with the Financial Accounting Standards Board.
- Build America Bonds.

Quotes from the Survey

*Explain any issues you are having with federal agencies.*

There was a trend among responses to this survey request, with many offices indicating that Treasury offsets continue to be an issue. Specific issues cited by survey respondents include “withholding funds from a state agency because another state agency is indebted to the U.S. Treasury” and “difficulty in getting information about the offset.” Another respondent said “…getting compliance regulations on time is always important.”

*What is the best thing in financial management going on in your state today?*

This question gives respondents a chance to highlight some of the good news that is taking place across the nation. Some positive developments noted include:

- Transparency of state financial expenditures.
- Functions of the state are being scrutinized and better efficiencies are being implemented.
- Potential opportunity for a new accounting system and to re-engineer business processes to leverage technology.

*What is the most pressing issue your office is facing today?*

There were many comments in this year’s survey about staff shortages, as well as some new issues mentioned, including:

- Exceedingly low interest rates on short-term investments and Federal Reserve monetary policy.
- Working to control the cost and find efficiencies in Medicaid and other health insurance coverage.

*Are there things NASACT can do to better serve the membership?*

Comments to this question definitely reflect state concerns about the recent media misconceptions about state finances and the U.S. Securities and Exchange Commission’s efforts to gain more control over municipal markets:

- Focus on the SEC/municipal securities proposed regulations on registration requirements of pension and bond issuance board members.
- Minimize overreaction to status of public pension funds.
- Continue to fight repeal of the Tower Amendment.
- Continue to monitor, and keep members informed about, single audit developments, especially any changes that would require single audit reports to be issued sooner after an entity’s fiscal year ending date than they are now.

New Database Gives Quick Access to State and Local Pension Data

A new database from the Center for State and Local Government Excellence and the Center for Retirement Research at Boston College offers access to a variety of state and local government pension data. The new Public Plans Database (PPD) includes:

- 126 state and local pension plans.
- Nearly 90 variables.

Access the PPD at www.slge.org. The PPD allows users to:

- Browse tables with latest aggregate/individual plan statistics.
- Create tables by searching data over time and across plans.
- Download data to conduct in-depth analysis.

The Center for State and Local Government Excellence helps state and local governments become knowledgeable and competitive employers so they can attract and retain a talented and committed workforce. The Center identifies best practices and conducts research on competitive employment practices, workforce development, pensions, retiree health security, and financial planning.
GASB Update, March 2011

GASB Issues Exposure Draft on Application of Hedge Accounting Termination Provisions


The proposal responds to questions that have arisen regarding the application of the termination provisions in Statement 53 when the counterparty (or the counterparty’s credit support provider) in an interest rate or commodity swap is replaced because the original counterparty (or credit support provider) failed to comply with the specific terms of a swap agreement.

The scope of the project was originally limited to circumstances involving counterparty bankruptcies. During staff research, however, constituents raised issues involving additional circumstances in which a counterparty (or credit support provider) is replaced due to other acts of default or termination events. The proposed clarifying guidance was expanded by the Board to cover those issues.

The proposed statement is limited to the following circumstances:

- The interest rate swap or commodity swap is a hedging derivative instrument as defined in Statement 53.
- The swap represents a liability of the government.
- The counterparty (or credit support provider) is replaced via assignment or in-substance assignment.
- The government enters into the assignment or in-substance assignment in response to the counterparty (or credit support provider) either committing or experiencing an act of default or a termination event as described in the original swap agreement.

Under the proposal, when a government replaces a counterparty (or the counterparty’s credit support provider), it is required to do so either by assignment or in-substance assignment. In other words, only the counterparty (or credit support provider) has changed and not the key terms of the swap agreement.

Without the proposed guidance, a government would be required to cease hedge accounting. This would cause the government to recognize any accumulated deferred changes in fair value as an investment loss even if the original swap was an effective hedging derivative instrument and the amended swap or replacement swap has identical terms that continue the effective hedging relationship.

The provisions of the ED would be effective for financial statement periods beginning after June 15, 2011. Earlier application would be encouraged.

Copies of the ED may be downloaded free of charge from www.gasb.org. The comment deadline is April 15, 2011.

GASAC Meets in Norwalk

Members of the Governmental Accounting Standards Advisory Council met on March 3 and 4 at the Financial Accounting Foundation offices in Norwalk, Connecticut. The GASAC’s agenda included updates on the activities of FAF and recent events related to the standards-setting process and the application of GASB pronouncements. This was the first meeting under new GASAC chairman Martin Benison, comptroller of the commonwealth of Massachusetts and a member of NASACT.

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 outflows of resources omnibus. GASAC members addressed tentative decisions made by GASB in these projects and offered input on open questions the Board will address in the future. (These tentative decisions are discussed further below under “Recent Board Activity.”)

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

Recent Board Activity

The GASB met in Norwalk on January 18–20 and via teleconference on February 8.

**Pension Accounting and Financial Reporting**

At the January meeting, the Board discussed issues related to the long-term expected rate of return and actual rate of return disclosures. Specifically, the Board discussed communication of historical actual rates of return by defined benefit plans. The Board tentatively decided to propose that defined benefit pension plans disclose both the current-period time-weighted rate of return.
The Board reaffirmed its position stated in the PV that projected earnings on plan investments, calculated using the long-term expected rate of return, should be included in the determination of pension expense in the period in which the earnings are projected to occur.

The Board also reconsidered the approach to the effects on expense recognition related to the differences between projected and actual earnings on plan investments proposed in the PV and tentatively decided to propose that differences between projected and actual earnings on plan investments be reported as deferred inflows and outflows of resources and be allocated and recognized in pension expense over a closed five-year period instead of using a corridor approach as outlined in the PV.

In addition, the Board considered the comments and testimony received on its PV regarding expense recognition of changes in a sole or agent employer’s net pension liability resulting from changes in the total pension liability. The Board tentatively decided to revise its initial position and to propose that the effect of a change of plan terms on the total pension liability be recognized as expense in the period of the change, regardless of the active or inactive classification of the employee.

The Board reaffirmed its preliminary view that changes in the total pension liability resulting from (a) differences between expected and actual experience with regard to economic or demographic factors or (b) assumption changes regarding the expected future behavior of economic and demographic factors should be deferred and recognized as expense over a period representative of employees’ expected remaining service lives. To the extent that such changes relate to past service of inactive employees, the Board reaffirmed its view that such changes should be recognized as pension expense immediately in the period of change. To the extent that such changes relate to past periods of service of active employees, the Board reaffirmed its preliminary view that expense should be recognized using a systematic and rational approach over a closed period.

The Board also tentatively agreed to propose that the period be an average expected remaining service life of the employees with which the change is associated, with weighting to approximate the result that would be obtained if such changes were recognized over each active employee’s service life. In addition, the Board reaffirmed its preliminary view that the service-cost component of pension expense should be the amount attributed to the current period by the entry age actuarial cost method and that interest on the beginning total pension liability should be recognized as pension expense each period.

At the February teleconference, the Board continued discussion of potential actuarial assumption requirements, including detailed mortality-related assumptions and experience studies. The Board tentatively decided that detailed information about mortality adjustments and mortality improvement assumptions should not be required to be disclosed. With regard to experience studies, the Board tentatively agreed that the ED should not include a minimum frequency requirement; however, the Board did agree that the date of the last experience study should be disclosed.

The Board also discussed potential limits on the application of the entry age normal attribution method and considered both the traditional entry age normal method and the ultimate/replacement entry age normal method. The Board tentatively decided that the attribution method defined in the ED should exclude the use of approaches such as ultimate/replacement entry age normal in which measurements of service costs are not individually based.

Finally, the Board discussed whether to require the allocation of an employer’s net pension liability among funds in the fund financial statements and between governmental and business-type activities in the government-wide statement of net assets. The Board tentatively decided that allocation provisions in the standards associated with the reporting model were adequate and, therefore, the employer ED should not include allocation guidance of this type.

**Economic Condition Reporting: Fiscal Sustainability**

At the January meeting, the Board reached a tentative agreement on specific measures that collectively are necessary for users to make an assessment of a governmental entity’s fiscal sustainability. These specific measures include:

(continued, next page)
The U.S. Government Accountability Office is currently revising Government Auditing Standards, the first major revision to the standards since 2007. Final release of the 2011 edition is expected in early summer.

NASACT’s next webinar, which will be held on May 4 from 2:00-3:50 p.m. Eastern time, will highlight key revisions from the 2007 Yellow Book and the changes and comments received on the 2010 exposure draft. The revisions reflect major developments in the accountability and audit profession and emphasize specific considerations applicable to the government environment, including:

- Revising independence standards and adopting a blended conceptual and rules-based approach to the determination of independence.
- Revising financial audit standards to streamline and converge with standards from the American Institute of Certified Public Accountants.

Please join us for this timely and informative training event. In addition to hearing scheduled segments from our speakers, you will be able to ask questions during a live Q&A session.

This webinar offers something for all government auditors and comptrollers.

Registration is now open at www.nasact.org/conferences_training/events.cfm. Questions about this event may be directed to (859) 276-1147.

GASB Update (continued from previous page)

- Projections of the major individual inflows of resources in dollars and as a percentage of total inflows of resources along with explanations of the known causes of resource fluctuations (including nonrecurring resources).
- Projections of the major individual outflows of resources by program or function in dollars and as a percentage of total outflows of resources along with explanations of the known causes of resource fluctuations.
- Projections of major individual financial obligations and total financial obligations including bonds, pensions, other postemployment benefits, and long-term contracts.
- Projections of annual debt service payments (principal and interest).
- Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies.

The Board also discussed task force feedback regarding how to define and measure the concept of “mandates.” The Board reached a tentative agreement that the percentage of major outflows of resources that are mandated versus discretionary is not an essential measure of the effects of fiscal interdependencies between governmental entities because of the difficulty, from a practical standpoint, in defining and measuring mandates.

The Board tentatively agreed that a narrative discussion of how mandates may cause fluctuations in future major individual outflows of resources would be more appropriate and is already encompassed within the specific measure projections of the major individual outflows of resources by program or function in dollars and as a percentage of total outflows of resources along with explanations of the known causes of resource fluctuations.

Deferred Inflows of Resources and Deferred Outflows of Resources

Beginning deliberations on the deferred inflows and deferred outflows of resources omnibus project at the January meeting, the Board tentatively agreed that the most pressing project issues are determining which balances should be reclassified as deferred inflows and deferred outflows of resources and the approach under which these determinations should be made.

The Board also tentatively agreed on a list of items currently classified as assets or liabilities that could potentially qualify as a deferred inflow or deferred outflow of resources. These items will be further discussed by the Board before making a determination using an overall approach in which it will (1) assess whether the item meets the definition of an asset or liability, and (2) if the item does not meet the definition of an asset or liability, then determine if the item meets the definition of a deferred inflow of resources or a deferred outflow of resources.
Register Now for Middle Management!

By Donna Maloy, Conference Manager

April 13–15, 2011
Hotel Monaco
Portland, Oregon

There is still plenty of time to register to attend the 2011 NASACT Middle Management Conference. The conference will be held in Portland, Oregon on April 13-15. Don’t miss this opportunity to convene with your peers for two and one-half days of sessions that will cover topics such as social media’s effects on the accountability profession, an update from the Governmental Accounting Standards Board, a Yellow Book update, writing effective reports, leadership, the fiscal outlook of the states, and so much more. In addition, there will be a performance audit roundtable, an emerging issues panel, and a training issues roundtable.

Conference Hotel

Don’t forget to book your hotel room! The Hotel Monaco has offered to extend the cutoff date until March 23. After this date, rooms will be offered on a rate- and space-available basis only. To reserve your room, call the Hotel Monaco at (503) 221-0001 and ask for the NASACT Middle Management Conference rate of $113/night plus applicable taxes.

Registration

Online registration, hotel information and a draft of the conference program can be found on NASACT’s website at www.nasact.org. Questions about the 2011 NASACT Middle Management Conference or any other NASACT event can be addressed to Donna Maloy at dmaloy@nasact.org.