It has truly been an honor to serve as president of NASACT for the past year—and what an interesting year it has been! Each of our states is going through its own unique crisis and political drama, a situation that is mirrored, if not amplified, at the federal level. And it has been in this challenging environment that the association has tackled some very challenging issues on behalf of its members.

I’m happy to report that regarding one long-standing issue, that of funding the Governmental Accounting Standards Board, a resolution is in sight. Earlier this year, the Securities and Exchange Commission issued an order requiring the Financial Industry Regulatory Authority to establish a reasonable accounting support fee to adequately fund the annual budget of GASB. FINRA issued the draft rules for the support fee on June 16. NASACT, through its Governmental Accounting Standards and Market Oversight Committee, is currently working to issue an official association response to the rules. Hopefully, the funding mechanism will be in place soon.

We have seen quite a lot of action on the municipal market front this year. NASACT has worked with the SEC in an effort to understand its concerns and explore ways to improve the municipal securities market. In May, several members of NASACT’s leadership group participated in a call with the SEC to convey the messages that NASACT strongly supports the Electronic Municipal Market Access System, or EMMA, and other methods of voluntary financial disclosure, that NASACT supports GASB as the independent standards-setting body for state and local governments, and that we would strongly oppose any federal intervention in this area. We will continue to work with the SEC and other bodies, such as the Municipal Securities Rulemaking Board, to advocate and help facilitate the timely disclosure of financial information and the continued improvement of disclosure compliance.

NASACT has been working to support repeal of the three percent withholding provision of the Tax Increase Prevention and Reconciliation Act for several years. While our goal has not yet been realized, the momentum behind repeal is at its strongest point yet. The Internal Revenue Service issued final implementation regulations, and states are now trying to cope with how to handle those new rules. With your help in the coming months, we can continue to voice states’ valid concerns over this unfunded mandate and hopefully see the provision repealed. If you have not yet done so, I encourage you to visit www.repealwithholdingnow.com and contact your legislators today to request that they support repeal efforts.

One can hardly be exposed to any news these days without hearing something about public pension woes. In response to both legislation proposing federal intervention into pension reporting and the media’s misrepresentation of the facts concerning public pensions, NASACT and other state organizations, including the National Governors Association, joined together in an impressive show of alliance to issue a fact sheet to set the record straight. We have worked to circulate that information among Congressional staff and offices to assure that they understand the true picture.

(continue on next page)
NASACT firmly supports the idea that the promulgation of generally accepted accounting principles for state and local governments should be the responsibility of GASB, not the U.S. Treasury or Congress or any other federal body. The GASB’s due process on pension accounting is underway, as GASB has just released what could be viewed as some of the most important exposure drafts since GASB 34. GASB’s two pension EDs (which are discussed beginning on page 6 of this newsletter) are linked at www.nasact.org. NASACT will be providing association responses, so I strongly encourage your participation in this process.

I could go on for pages about all the things we’ve worked on this year, such as our participation in work groups of the U.S. Office of Management and Budget to examine improper payments, the single audit and cost allocation; our efforts in the grants management arena; and our careful considerations of the recently released Digital Accountability and Transparency Act, also known as the DATA Act. But I’ll just leave it at this: there is a lot going on in our professional environment these days. Of course each of you is painfully aware of this.

I am thankful that we have professional organizations like NASACT to turn to in such times, to help us come together, build consensus and move in a unified manner to address problems that are concerning to all the states and all government finance and accountability professionals. It is amazing to me that among our membership we have 46 new members in FY2011. This is a leadership transition trend that has been reflected around the nation in governor’s offices and in elected and appointed positions at all levels. I am hopeful that we can count on NASACT veterans to step into leadership roles and help mentor the new state auditors, state comptrollers and state treasurers who have joined our ranks. My best advice to the new members is this: get involved. NASACT is a valuable professional resource, and the only way to realize the full potential of this resource is to participate.

Toward that end, I hope that all members, new and old, will utilize the travel assistance program to join me and our Vermont hosts at the upcoming NASACT annual conference in Burlington on August 13-17. We have a lot to talk about together, and our annual conference is the best place for that to happen. I hope to see each of you there.

There are many people who deserve hearty thanks for their work during the past year. Kinney and Cornelia have provided steady, outstanding support and valuable insight during my year as president. I thank my colleagues on the NASACT Executive Committee for their hard work this year (and thank them in advance for helping address the issues on the horizon). I want offer my gratitude to John Radford for his service as a government trustee on the Financial Accounting Foundation for the past five years. And lastly, I thank all of NASACT’s committee chairs and members for their support.

NASACT is an organization based upon group effort to sustain group benefit. I am proud to be part of this group, and I thank you for the opportunity to serve as its President for the past year.

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The 2011 NASACT Annual Conference will be hosted in Burlington, Vermont, by (shown left to right) Thomas M. Salmon, state auditor; James Reardon, commissioner of the Department of Finance and Management; and Beth Pearce, state treasurer.
It’s Not Too Late to Register for NASACT 2011 in Vermont!

Join Vermont conference hosts Thomas M. Salmon, state auditor, Beth Pearce, state treasurer, and James Reardon, commissioner of the Department of Finance, for the 2011 NASACT Annual Conference in Burlington, Vermont, this August 13-17. The registration brochure is available at www.nasact.org. Download it to find details about the technical program and a complete schedule of networking opportunities and guest activities.

Visit www.nasact.org/conferences_training/events.cfm to register now!

General Session Highlights

Vermont Governors: Our Times, Our Challenges

- Peter Shumlin, Governor of Vermont, 2011-Present (at left)
- James H. Douglas (Gov., 2003-2011)
- Howard Dean (Gov., 1991-2003)
- Madeleine Kunin (Gov., 1985-1991)
- Thomas P. Salmon (Gov., 1973-1977)
- Ray Keyser, Jr. (Gov., 1961-1963)

Hear the current governor and five past governors of Vermont discuss how state government has evolved over the years and how to apply the lessons learned to future challenges.

From the Private Side Looking In:
A Different Perspective

Ernest A. Almonte, Former Auditor General of Rhode Island and CEO, Almonte Group LLC

This NASACT lifetime member and past chairman of the American Institute of Certified Public Accountants will discuss fraud, risk and life on “the other side.” He’ll detail transitioning from the public to the private sector and share perspectives he has gained along the way.

Resetting Government:
The Time is Now

David Walker, Former U.S. Comptroller General and Founder and CEO of the Comeback America Initiative

One of the country’s leading experts will talk about why it is time to reset government—now. The session will address the labor issues facing the public sector and why we can’t afford to “kick the can” down the road any longer.

Economic Overview: Is the Worst Behind Us?

Dr. David Colander, C.A. Johnson Distinguished Professor of Economics, Middlebury College

In this session you’ll hear an overview of what economists are saying now about the economy, including commentary on the monetary system and its rebound potential. Dr. Colander will share his thoughts on the housing market and its link to future economic recovery and on budgetary cycles and how the business cycle should drive policy decisions.

The Current State of Pensions:
Are Things as Bad As Advertised?

John Chiang, State Controller of California and Board Member of CALPERS

Thomas DiNapoli, State Comptroller of New York

Charles Millard, Managing Director, Citi Global Markets, and Former Director of the U.S. Pension Benefit Guaranty Corporation

Public pensions have been receiving a great deal of negative attention lately. This session will set the record straight by examining the current state of public pensions around the country. A specific focus on California and New York will be provided.

More!
The technical agenda will also include sessions on topics such as standards updates, fraud, electronic commerce, ERP, managing municipal debt, improper payments, government reform, transparency initiatives and smart budgeting.

Don’t Forget the Travel Assistance Program!

NASACT principals (or their designees) in good standing are eligible to receive up to $1,000 in travel assistance to attend the annual conference. The funds may be used to cover registration or travel costs.

Additionally, all new state auditors, state comptrollers and state treasurers will be offered up to $1,000 in travel assistance and complimentary conference registration (a $600 value). New members should call Donna Maloy at (859) 276-1147 to register.
State Pension Administrators Question Assumptions Used to Project Condition of Public Retirement Systems

After a series of news reports regarding the long-term outlook of public pensions and their effect on state finances, the National Association of State Retirement Administrators and the National Council on Teacher Retirement released a brief explaining the differences between the assumptions used by Professors Joshua Rauh and Robert Novy Marx in their paper entitled “The Revenue Demands of Public Employee Pension Promises” (www.kellogg.northwestern.edu/faculty/rauh/)

A copy of the NASRA–NCTR brief is available at www.nasra.org/resources/Rauh-Novy-MarxCritiquePART2.pdf. A chart from the brief, which outlines the varying assumptions, is reprinted below.

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Rauh-Novy-Marx Assumption</th>
<th>Actual Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected inflation-adjusted returns</td>
<td>1.71%</td>
<td>4.25% to 5.26%</td>
</tr>
<tr>
<td>Projected economic growth</td>
<td>Less than 2%</td>
<td>2.4% to 2.8%</td>
</tr>
<tr>
<td>Sources of state/local revenue</td>
<td>Taxes are only source of revenue</td>
<td>Taxes compose about half of state and local revenues; the remainder comes from non-tax sources, such as fees, grants, tuition and direct payments for shared programs</td>
</tr>
<tr>
<td>Measuring pension cost</td>
<td>Theoretical value using current low interest rates</td>
<td>Accounting and actuarial standards that use long-term expected government costs</td>
</tr>
<tr>
<td>Social Security coverage and cost</td>
<td>All state and local governments will opt to cover their employees with Social Security and will pay both the employee and employer portions of such coverage</td>
<td>Nearly 30% of public employees have a pension in lieu of Social Security; those who do have Social Security pay their equal share of payroll tax as required under federal law</td>
</tr>
<tr>
<td>Available Solutions</td>
<td>Higher taxes, higher investment returns, spending cuts</td>
<td>States and localities have employed a range of solutions, including increasing employee contributions, adjusting benefits, limiting or eliminating cost of living adjustments (COLAs), increasing retirement ages, furloughing or laying off employees, and reducing hiring</td>
</tr>
<tr>
<td>Use of assumptions to project costs</td>
<td>Applies identical assumptions to all retirement systems</td>
<td>Benefits and financing vary significantly from one plan to another</td>
</tr>
</tbody>
</table>

SEC To Hold Field Hearing in Troubled Jefferson County

The Securities and Exchange Commission has announced another field hearing to explore the state of the municipal securities market. The July 29 hearing is slated to take place in Jefferson County, Alabama. Jefferson County has been making headlines for its potential to suffer the largest municipal bankruptcy in U.S. history due to over $3.2 billion in sewer bond debt.

The location is not lost on those muni participants following the SEC’s interest in municipal securities. In addition to being known for its high profile bond scandal, Jefferson County is also part of Congressman Spencer Bachus’s district. Rep. Bachus is the current chairman of the House Financial Services Committee, which has jurisdiction over issues including the economy, the banking system, housing, insurance, and securities and exchanges.

The hearing is the third in a series aimed at examining issues that affect investors in the municipal securities market. The topics will include distressed communities, small issuers, disclosure, derivatives and pre-trade price transparency.

The hearing will take place beginning at 8:30 a.m. on July 29, at Rosewood Hall, 2850 19th Street South, Homewood, Alabama, 35209. The public is welcome to attend. The hearing will be also be webcast at www.sec.gov on the day of the event.
NSAA 2011-12 Committees Finalized

David A. Vaudt, auditor of state of Iowa and president of the National State Auditors Association, recently finalized committees for 2011-12. Committee chairs and vice-chairs are listed below. Visit www.nasact.org/nsaa/committees/index.cfm for committee descriptions, current rosters, past meeting minutes and other resources. It’s not too late to join one of these committees; if you’d like to join, contact Sherri Rowland at srowland@nasact.org.

Executive Committee
President: David A. Vaudt, Auditor of State, IA
President-Elect: Elaine M. Howle, State Auditor, CA
Secretary/Treasurer: Rebecca Otto, State Auditor, MN
Past President: Walter J. Kucharski, Auditor of Public Accounts, VA
Thomas M. Salmon, State Auditor, VT
Roger Norman, Legislative Auditor, AR
David W. Martin, Auditor General, FL

Audit Standards and Reporting
Chair: Auston Johnson, State Auditor, UT
Vice Chair: Randy Roberts, Director of Professional Practice, Office of the Auditor General, AZ

Auditor Training
Chair: Glen Fowler, Recruiting and Training Manager, CA
Vice Chair: Paula Kinnard, Assistant Legislative Auditor, AR

E-Government
Chair: Karen Helderman, Audit Director, VA
Vice Chair: Mike Billo, Assistant Director, Bureau of Quality Control/IT Audits, Dept. of the Auditor General, PA

Human Resources
Chair: Rebecca Otto, State Auditor, MN
Vice-Chair: Roger Norman, Legislative Auditor, AR

Peer Review
Chair: Elaine M. Howle, State Auditor, CA
Vice-Chair: Tom Barnickel, Deputy Legislative Auditor, MD

Performance Audit
Chair: Steve Eells, State Auditor, NJ
Vice-Chair: Deborah Loveless, Assistant Director, TN

Single Audit
Chair: David W. Martin, Auditor General, FL
Vice-Chair: Thomas Salmon, State Auditor, VT
Vice-Chair: George Strudgeon, Audit Director, VA

Auditor’s Education Foundation
Chair: Thomas M. Salmon, State Auditor, VT

Annual Meeting Program
Chair: David A. Vaudt, Auditor of State, IA

Nominations
Chair: William G. Holland, Auditor General, IL

Resolutions
Chair: William G. Holland, Auditor General, IL

Time and Place
Chair: Elaine M. Howle, State Auditor, CA

William R. Snodgrass Award
Chair: David A. Vaudt, Auditor of State, IA

Register Today for the NSAA IT Workshop and Conference

The 2011 NSAA IT Workshop and Conference is scheduled for September 27-30, in Denver, Colorado. Don't miss it! The conference will offer attendees the latest on topics such as computer-based fraud detection techniques, cloud computing, website security, IT project assessments, auditing PeopleSoft, innovative tools for audit efficiency, and much more. The topic for the workshop is Penetration Testing for Maximum Benefit.

Scholarships Available

The NSAA Auditor’s Education Foundation is currently accepting scholarship applications for the conference. Applications are due by Wednesday, August 10, 2011. To request an application, email Sherri Rowland at srowland@nasact.org.

General Information

- **Location:** Denver, Colorado.
- **Date:** September 27-30, 2011.
- **Cost:** Registration cost $150 for the workshop is $150 and $350 for the conference for governmental attendees ($450 for non-governmental attendees).
- **CPE:** Eight credits will be offered for the workshop; 19 credits for the conference.
- **Hotel:** The conference will be held at the Embassy Suites Downtown Denver. To book, call (303) 592-1000. The special rate for the conference is $141/night plus applicable taxes (the cut-off date for this rate is **August 29, 2011**).
- **Register:** Register today at www.nasact.org/conferences_training/events.cfm.
- **Questions:** Questions about the conference or workshop may be directed to Sherri Rowland at (859) 276-1147.
GASB Issues Multiple Documents

The Governmental Accounting Standards Board recently issued a number of documents, including two exposure drafts related to the pension accounting and financial reporting project, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53, and a preliminary views document, Recognition of Elements of Financial Statements and Measurement Approaches. Each of these documents is described below. More information about these statements and proposals is available at www.gasb.org.

Pension Proposals

On July 11, the GASB issued two exposure drafts proposing improvements to accounting and financial reporting of pensions by state and local governments: Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans. The documents propose amendments to the existing pension standards to improve how the costs and obligations associated with the pensions that governments provide to their employees are calculated and reported. Accounting and Financial Reporting for Pensions relates to reporting by governments that provide pensions to their employees. Financial Reporting for Pension Plans relates to the pension plans that administer those benefits.

The proposals arise from the GASB’s reexamination of its existing pension standards, which is a part of the GASB’s broader effort to periodically examine the effectiveness of its existing standards.

The GASB is proposing a pronounced shift from the current funding-based approach to an accounting-based approach. The most significant change that the proposals put forward in this regard is that governments would be required to report their net pension liability in their statement of financial position.

Currently, governments are required to report a liability only for any unpaid portion of the actuarially required contribution (ARC) for the period. Under the proposal, they would have to report on the face of the statement their overall pension liability less the amount available in a qualified trust for the payment of benefits to current employees, retirees, and their beneficiaries. While this change could result in a given government looking worse off than it was previously due to a larger liability being reported, the economic reality does not change. Rather, under the Board’s thinking, the information being reported becomes significantly more transparent and more useful to the decision making of users of financial statements.

Measuring the Total Pension Liability

The proposals also would change how governments would measure the total pension liability, which involves three steps:

1. Projecting future benefit payments.
2. Discounting those payments to their actuarial present value.
3. Attributing the present value of the projected benefit payments to past and future years during which employees have worked or are expected to work.

The proposal would carry forward the general current practice of incorporating expectations of future employment-related events into projections of pension benefit payments. Pension plans provisions for automatic cost-of-living adjustments (COLAs), generally included as part of an employment agreement, statute, or ordinance, would continue to be included in projections as well. Ad hoc COLAs, which are made at the discretion of the government, would be included if they occur with such regularity that they are practically automatic.

Discounting projected pension benefit payments to their present value requires the assumption of an interest or discount rate. Current standards require governments to apply a discount rate equal to the expected future rate of return on the investments of the pension plan over the long term. Net assets held by a pension plan over time associated with current employees, however, may not be expected to fully cover projected benefit payments for those individuals. At the point at which net assets are not expected be available to be invested for the long-term to make benefit payments—the so-called “crossover point”—governments would begin discounting using a tax-exempt, high-quality (rated AA or higher, including equivalent ratings) 30-year municipal bond index rate. This proposal reflects that those future benefit payments are not expected to be made with the pension plan’s long-term investments, but with the general resources of the government.

Next, the benefit payments—discounted to their present value—are allocated over a period related to the working years when the employees earn benefits. Under the proposal, governments would use the entry age normal actuarial cost method to allocate present value, and would do so as a level percentage of payroll. Under this method, projected benefits are discounted to their present value when employees first begin to earn benefits and attributed to employees’ expected periods of employment until they leave.

Measuring Pension Expense

A government’s net pension liability changes from year to year for a variety of reasons. A key issue is when to recognize these period-to-period changes as a cost of a government’s operations—as expenses in the accrual-based financial statements.

Under the GASB’s proposal, several causes of changes in the net pension liability would be factored into the calculation of pension expense immediately in the period the change occurs, including:

(article continued, next page)
Benefits earned each year.
Interest on the total pension liability.
Term changes in benefits.
Projected earnings on plan investments.
Changes in plan net position other than investments.
The effect of changes in assumptions and the difference between assumed and actual economic and demographic factors, as it relates to inactive employees.

The effect of changes in assumptions and the difference between assumed and actual economic and demographic factors, as it relates to active employees, would be recognized initially as deferred outflows of resources or deferred inflows of resources and then introduced into the expense calculation gradually over the remaining years of employment of active employees.

The effect of differences between the expected return on plan investments and actual experience would be recognized as deferred outflows of resources or deferred inflows of resources and included in expense in a systematic and rational manner over five years.

Cost-Sharing Multiple-Employer Plans
Governments participating in cost-sharing multiple-employer plans currently are not required to present actuarial information about the plan or their own portion of it. Instead, information is required to be presented in the pension plan’s own financial statements for all of the participating governments combined.

Because the needs of the users of information about cost-sharing plans and their participating governments are different from the needs of people interested in governments participating in single-employer and agent multiple-employer pension plans, the GASB is proposing that cost-sharing governments would report a net pension liability in the statement of financial position based on each individual government’s proportion of the collective net pension liability of all of the governments participating.

The Plan Proposal
While this article focuses on the highlights of the employer proposal, it is important to note that the exposure draft addressing plan reporting proposes standards for financial reporting by defined benefit pension plans administered through qualified trusts. The proposal outlines the basic framework for the separately issued financial reports of defined benefit pension plans. The exposure draft also details proposed note disclosure requirements for defined contribution pension plans administered through qualified trusts.

The deadline to comment on the pension proposals is September 30, 2011. Additional details on how to provide comments are available in the exposure drafts.

Pension Proposals Webcast
Registration is now open for the upcoming Governmental Accounting Standards Board webcast, An Overview of the GASB’s New Pension Proposals. This live webcast, offered free of charge, will take place on Wednesday, August 10, from 1:00 to 2:00 p.m. EDT.

The webcast will feature Robert Attmore, chairman of the GASB, and David Bean, director of research and technical activities for the GASB. They will provide an overview of the proposals and their objectives and also discuss the due process that will occur prior to their finalization. Registered webcast attendees can ask the program hosts questions about the pension proposals.

The webcast is offered free of charge to viewers who preregister online. Registration is available at www.gasb.org. Preregistered viewers will be provided with a link where they can access the webcast a few minutes prior to its live airing. An archive of the webcast will be available for continued access by the public at www.gasb.org.

Statement 63 on the Statement of Net Position
In June, the GASB unanimously approved Statement 63, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position.

Prior to the issuance of Statement 63 it was unclear where these elements should be reported in the statement of financial position; the GASB has now provided a framework that specifies where deferred outflows of resources and deferred inflows of resources—as well as assets and liabilities—should be displayed. The statement also discusses how net position—no longer net assets—should be displayed. Ultimately, this new framework will serve to standardize the presentation of deferred balances and their effects on a government’s net position and address uncertainty related to their display.

The need for this guidance is urgent because GASB pronouncements have already addressed transactions requiring the use of deferred outflows of resources or deferred inflows of resources.

The statement specifies that the statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position separately in their own sections and identifies two formats that may be used. Use of the net position format is encouraged (assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources equal net position); however, use of the balance sheet format (assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position) also is permitted.

Under the statement, net position should be displayed in three components similar to those currently required for net assets: net investment in capital assets, restricted, and unrestricted.

NASACT will be preparing an association position on both EDs. To have your comments included in the association responses, please send them to Kim O’Ryan (koryan@nasact.org) or Sherri Rowland (srowland@nasact.org) no later than Friday, September 2.
Statement 64 on the Application of Hedge Accounting Termination Provisions

On July 13, the GASB issued Statement 64, clarifying the application of requirements in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that address the termination of hedge accounting.

Statement 53 provides guidance on the application of hedge accounting for derivative instruments that are effective hedges. When hedge accounting is applied, changes in fair values of a hedging derivative instrument are reported as either deferred outflows of resources or deferred inflows of resources, rather than being recognized in current period investment income. When hedge accounting is terminated, Statement 53 requires the accumulated deferred changes in fair value of the hedging derivative instrument to be recognized in investment income in the current period.

The additional clarity provided in Statement 64 is necessary because governments have raised questions regarding whether, under the provisions in Statement 53, hedge accounting should be terminated when the swap counterparty, or swap counterparty’s credit support provider, is replaced. These questions arose when the swap counterparty, or the swap counterparty’s credit support provider, experienced or committed an act of default, and thereby failed to comply with a swap agreement’s specific terms.

The scope of the project was originally limited to circumstances involving swap counterparty bankruptcies. During the Board’s research, however, additional questions were raised regarding other acts of default and termination events that are commonly described in swap agreements. The Board expanded the scope of the project to address those additional issues.

Statement 64 clarifies that when certain conditions are met, hedge accounting should continue to be applied for accounting and financial reporting purposes. When an interest rate swap or commodity swap is an effective hedging derivative instrument, as defined in Statement 53, and all of the following conditions are met, the GASB believes an effective hedging relationship continues to exist:

- Collectability of swap payments is considered to be probable.
- The swap counterparty or the swap counterparty’s credit support provider is replaced by an assignment or an in-substance assignment.
- The government enters into the assignment or in-substance assignment in response to the swap counterparty, or the swap counterparty’s credit support provider, either committing or experiencing an act of default or a termination event as both are described in the swap agreement.

This guidance was needed because 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, a government would have been required to terminate hedge accounting and recognize any accumulated deferred amount in investment income immediately.

GASB Seeks Comments on Preliminary Views on Recognition and Measurement of Elements of Financial Statements

The GASB issued a preliminary views document on July 11 regarding the recognition of elements of financial statements and measurement approaches. This document is designed to convey and solicit comments on the Board’s views at an early project stage on the manner in which and timing of when an item should be reported or recognized on state and local government financial statements and how the amount of the item reported on those statements should be determined.

This project is ultimately expected to result in the issuance of a concepts statement. Concepts statements are intended to provide a conceptual framework of interrelated objectives and fundamental concepts that can be used as a basis for establishing consistent standards. They identify the objectives and fundamental principles of accounting and financial reporting that can be applied to solve numerous issues.

Recognition of Elements of Financial Statements

Recognition concepts encompass two key features of state and local financial statements. The measurement focus of a specific financial statement determines what items should be reported as elements of that financial statement. The related basis of accounting determines when those items should be reported.

This PV proposes a recognition framework for both the economic resources measurement focus and the near-term financial resources measurement focus. The near-term financial resources measurement focus, on a conceptual basis, would replace the current financial resources (CFR) measurement focus due to various inconsistencies in the CFR measurement focus model.

This framework would also include proposed concepts related to the recognition of deferred outflows of resources or deferred inflows of resources in financial statements prepared using the economic resources measurement focus.

Measurement Approaches

A measurement approach is a broad concept focusing on how the amount of an asset or liability presented in a financial statement should be determined. The PV proposes a framework for when each of two primary measurement approaches, on a conceptual basis, should be used. The primary measurement approaches are:

- **Initial-Transaction-Date-Based Measurement (Initial Amount)**—The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount, such as through amortization or depreciation.
- **Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)**—The amount assigned when an asset or liability is remeasured as of the financial statement date, including fair value; current acquisition, sales, and settlement price; replacement cost; and value-in-use.
The GASB is seeking public comment on the views described in the document prior to developing more detailed proposals. The deadline to comment is September 30, 2011. Additional details on how to provide comments on the proposal are available on the GASB website, www.gasb.org.

NASACT will be preparing an association position on this PV. To have your comments included in the association response, please send your comments to Kim O’Ryan (koryan@nasact.org) or Sherri Rowland (srowland@nasact.org) no later than Wednesday, September 7.

Reporting Balances Previously Recognized as Assets and Liabilities

(Project formerly known as the Deferred Inflows and Outflows of Resources Omnibus)

Continuing project deliberations in May, the Board reviewed staff analysis of regulated activities and other remaining project issues including the major fund calculation, order of liquidity presentation, classification of current versus noncurrent, the appropriate use of the term deferred, and the effective date of the statement.

The Board deliberated whether certain regulatory liabilities and regulatory assets should continue to be classified as an asset or liability, be reclassified as deferred inflows or deferred outflows of resources, or be recognized as an inflow or outflow of resources in the current period. The Board considered feedback and examples received from the deferrals project task force as well as input from a group of auditors and preparers familiar with financial statements for regulated business-type activities.

The Board also made a number of tentative conclusions regarding how various balances should be classified.

In addition, the Board tentatively agreed that the criteria for major fund determination should be proposed to be amended to combine deferred outflows of resources with assets and deferred inflows of resources with liabilities in the calculation of major funds. For instance, the combined total of deferred outflows of resources with assets and the combined total of deferred inflows of resources with liabilities of an individual governmental or enterprise fund would be compared to the corresponding total for all funds of that category or type using the 10 percent threshold.

The Board tentatively agreed that the proposal should not include specific guidance regarding the order of liquidity and classification of current versus noncurrent for deferred outflows and deferred inflows of resources. The Board also tentatively concluded to propose that the use of the term deferred be limited to the financial statement elements of deferred outflows and deferred inflows of resources.

Finally, the Board tentatively agreed that the effective date of the project should be proposed for periods beginning after June 15, 2012.

The Board deliberated how prepayments and resources received in advance of an exchange transaction should be classified. The Board tentatively concluded that whether a prepayment is refundable or nonrefundable should not be the main determining factor in the classification of the balance; instead, the Board tentatively decided to propose an approach that places more emphasis on the notion of control, recognizing “refundability” as a potential manifestation of control.

The Board tentatively decided to propose that the resulting debit or credit due to a refunding or an advance refunding should be reported separately from the new debt, rather than as an offset against the balance of the new debt, on the statement of net position.

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The GASB Update is provided on a bimonthly basis by staff from the Governmental Accounting Standards Board.

Mid-Year Assessment Shows State Finances Strengthening

The Center on Budget Policies and Priorities released a report this month showing that certain state revenue streams are showing signs of strengthening. Focusing on states with income taxes, the CBPP found that:

“…28 states have reported that tax collections for the just-ended fiscal year will exceed the amount expected when their budgets were adopted last spring. In 23 of those states, the improvement is driven by gains in income tax collections—a result of rapid increases in the incomes of wealthy individuals and corporations over the last year.”

This trend is reinforced by other data showing that both Ohio and Arkansas are closing out their fiscal years with increased revenue collections and surpluses for the first time in years.

The report found that those states relying heavily on income taxes, both at the corporate and individual levels, rebounded quicker than their other state counterparts that do not have income taxes. Some states without income taxes did see gains in other revenue streams (such as sales taxes), but they were dwarfed by the percentage increases in personal income taxes, which have grown nine percent over last year. With the extreme cuts that states have had to implement in the past 12-24 months, budget pressures have been mildly mitigated, but state recoveries are still lagging behind the overall economy. The CBPP ultimately concludes:

“The better-than-expected revenue picture is good news… It is, however, going to take years to reverse the damage inflicted by the recession on state budgets.”

The full report can be viewed at www.cbpp.org/cms/index.cfm?fa=view&id=3530.
NASACT Announces 2011-12 Corporate Associates Program Members

By Donna Maloy, Conference Manager

NASACT wishes to thank the 2011-12 Corporate Associates Program members. These corporate partners are a valuable part of our organization. They not only provide financial support to the organization, but also their experience and expertise. Representatives from many of these companies will be present at this year’s annual conference in Burlington, Vermont. We ask NASACT members to take a moment and meet them during one of several planned networking opportunities.

Platinum Level
- CGI
- Oracle Corporation
- Deloitte
- SAP

Gold Level
- KPMG

Silver Level
- Accenture
- Bronner
- Grant Thornton
- MasterCard
- STA Consulting
- US Bank
- Bank of New York Mellon
- Citi
- IBM
- Navigant Consulting
- TD Bank

Bronze Level
- CedarCrestone
- Clifton Gunderson
- Kronos
- The Hackett Group
- CherryRoad Technologies, Inc.
- Ernst & Young
- McGladrey, Inc.
- Standard & Poor’s

For those corporate associates who have participated over the years, thank you. For our new corporate associate members, welcome! We look forward to working with you during the coming year.

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Visit these corporate associates at www.nasact.org/nasact/corporate/index.cfm.