2013: A Year of Opportunities for NASACT

I am honored to serve as the president of NASACT. I am taking over the presidency of a very well-run organization with outstanding leadership and a sound financial condition. This is a credit to my predecessors and the dedicated staff in Lexington, led by Executive Director Kinney Poynter, and our office in Washington, D.C., headed up by Cornelia Chebinou. Over the last few years Kinney has led the Executive Committee through a deliberative and systematic approach to reviewing the organization’s polices. In the most recent year this included the dues structure, the investment policy, membership benefits for conferences, and finally, with the help of an outside firm, a review of the employee compensation system. In the coming year we will undertake a comprehensive triennial update to the strategic plan. Please watch for an upcoming survey from the Strategic Planning Committee this winter.

One of the new dynamics of the organization is the increasing frequency of turnover among our members. NASACT lists 182 offices in the 50 states, territories and District of Columbia. In the last two years we have seen more than a third of the membership turn over. The true strength of NASACT is its members and our interaction in face-to-face meetings, through online opportunities and webinars, or working through the committee structure. Our recent meeting in Seattle, with its outstanding technical program, is a great example of this NASACT value. We have a standing Membership Committee, led by Rebecca Otto and Donna Jones, that focuses on welcoming new members and helping them integrate into the organization. On the recommendation of that committee, we offered new members complimentary registration to the annual conference in addition to $1,000 in travel assistance offered to all members. These member benefits have shown returns, increasing the number of members attending our annual conference. As a result, the Executive Committee has voted to permanently make both of these benefits available to all members beginning with the 2013 annual conference.

To new members I ask that you look at our committees and join, or ask one of your staff to volunteer for a committee or one of our many information sharing groups. I have also asked the Membership Committee to reach out to our new members to evaluate the new member welcoming process and let the committee know if any fine tuning is needed. Finally, to all members, I would ask that if there are issues you feel we should be working on, reach out to Kinney Poynter or me.

The biggest challenge we face in coming years is the financial constraints that will be imposed on the federal government and how states prepare for the almost certain decline in federal revenues. Thanks to the diligence of our Financial Management and Intergovernmental Affairs Committee (FMIAC), led by Clark Partridge and Richard Ellis, and our D.C. office, we maintain strong relationships with the Office of Management and Budget and the Government Accountability Office. Much of the foundation of this relationship was built as we worked cooperatively with the federal government to ensure that the Recovery Act was implemented efficiently, but with a high level of accountability. As the inevitable decline in federal revenues reduces revenue sharing with the states, we need to ensure that we have the flexibility to implement these cuts in ways that best mitigate the impact on our individual states.

Another issue I have asked Clark and Richard to focus on is the concern being raised by the Securities and Exchange Commission regarding the municipal bond markets and the current level of disclosure. We need to hear the SEC’s concerns and continue our efforts to improve the quality and timeliness of municipal disclosure, but at the same time ensure that new costly regulation or oversight is not imposed on states in times of declining revenues. We do not need a solution that is disproportionate to the extent of the problem.

In closing, I look forward to working with you and your staffs to further the interests of our organizations, and ultimately the taxpayers. Along with my co-hosts, Steve Grossman and Suzanne Bump, I looked forward to welcoming you to Boston next August for an enjoyable and productive 2013 annual conference.

By Martin J. Benison, 2012-13 President of NASACT, and Comptroller of Massachusetts

President Martin J. Benison Leads NASACT’s Efforts in FY 2013

Martin J. Benison was elected president of NASACT in August at the 2012 NASACT Annual Conference. He is the comptroller of the commonwealth of Massachusetts, a position he has held since 1999, and has been involved with NASACT since 1992. He is a past president of the National Association of State Comptrollers and currently serves as chairman of the Governmental Accounting Standards Advisory Council.
Are You Interested in Serving on a NASACT Committee?

Committee participation is one of the best ways to get involved in NASACT’s activities. NASACT President Martin J. Benison is currently working to finalize the 2012-13 committees. If you are interested in serving on one of the committees listed below, please contact Glenda Johnson at gjohnson@nasact.org or (859) 276-1147.

- **Training and Professional Development**
  
  The purpose of this committee is to develop and plan the technical program at the NASACT annual conference and provide input on topics for NASACT webinars and the Training Seminars Program.

- **Committee on Accounting, Reporting and Auditing**
  
  The CARA meets by conference call three times per year and once at the NASACT annual conference to discuss accounting, financial reporting, auditing and other matters related to the financial management of state government. Governmental Accounting Standards Board staff participate on calls of this committee.

- **Financial Management and Intergovernmental Affairs**
  
  This committee examines emerging issues, monitors legislation and regulations affecting state governments, responds to municipal market issues, and works to improve intergovernmental relations.

- **Membership**
  
  The Membership Committee is responsible for outreach to new and existing state auditors, comptrollers and treasurers and addressing other membership-related issues.

**Note:** Committee participation is open to NASACT members and members’ staff.

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Did You Know? Members of NASACT may view past committee meeting minutes and resources at www.nasact.org/nasact/committees/index.cfm (must be logged into the site). Committee rosters are viewable by any visitor to NASACT’s website.
New at www.nasact.org

The following new items have been posted on NASACT’s website:

- Travel policies from the states of Alaska, Arizona, Iowa, Kansas, Louisiana, Michigan, Montana, Nebraska, New Jersey, North Carolina, Ohio, Oregon, Pennsylvania, South Dakota, Texas and Washington. These policies are provided through the NASC Travel and P-Card Information Sharing Group at www.nasact.org/nasc/committees/travelpcardISG/index.cfm (members only content).

- NASC technical inquiries on the following topic at www.nasact.org/nasc/technical/index.cfm (members only content):
  - Financial Reporting Section Staffing
  - P-Card Transaction Logs

- Dates for NASACT’s 2013 conferences can be found at www.nasact.org/conferences_training/events.cfm.

Check Out NASACT’s Careers Page at www.nasact.org

Member offices may post job opportunities on NASACT’s Careers page at www.nasact.org/nasact/careers/index.cfm. In addition to job postings from member offices, the page has links to career opportunities with the U.S. Government Accountability Office and the U.S. Office of Management and Budget.

NSAA Seeks Peer Review Program Participants for 2013

NSAA has 14 peer reviews scheduled for 2013, which means that many review team members and leaders will be needed. Potential team members should complete the “Team Member Qualifications Form” that can be found at www.nasact.org/nsaa/peerreview/index.cfm (must be logged in to view). Even if a qualification form has been previously submitted, a new form must be filled out each year. Forms should be submitted by November 2, 2012.

Upcoming Information Sharing Calls

October

- NASC Paperless Accounts Payable Information Sharing – October 4
- NSAA HR Information Sharing – October 31

November

- NASC State Government Payroll Information Sharing – November 14
- NASC Travel & P-Card Information Sharing – November 28

COMING SOON: New Info Sharing Groups on the Implementation of AICPA Clarity Standards and GASB Pension Standards

AICPA Clarity Standards: NSAA will soon be forming an information sharing group to discuss issues related to the implementation of the Clarity Standards from the American Institute of Certified Public Accountants. To express your interest in participating, email Sherri Rowland at srowland@nasact.org.

GASB Pension Standards: NASACT’s Committee on Accounting, Reporting and Auditing suggested the formation of an information sharing group to discuss issues related to the implementation of the recently issued pension standards from the Governmental Accounting Standards Board. To express your interest in participating, email Kim O’Ryan at koryan@nasact.org.

Meeting dates and agendas will be announced in the near future for these two new groups.

Get Involved!
For information on participating in any of these calls, contact NASACT’s headquarters office at (859) 276-1147.
GAO Releases Two State Health Care Reports

With the continued focus on health care expenditures at the state level, the U.S. Government Accountability Office in late August released two reports that examined various aspects of state health care spending and Medicaid, as well as the eligibility data that states are accumulating on their program participants. The GAO has designated Medicaid a high-risk program because of its size, growth, and inadequate fiscal oversight. The program cost the federal government and states an estimated $383 billion in fiscal year 2010.

The first report, released on August 20, was entitled States Reported Billions More in Supplemental Payments in Recent Years. The analysis was based on data showing that states had reported $32 billion in Medicaid supplemental payments during fiscal year 2010, but that the exact amount of supplemental payments was not known because of incomplete state reporting. The report highlighted that to combat this issue, officials from the Centers for Medicare and Medicaid Services are taking steps to improve states’ reporting of non-disproportionate share hospital supplemental payments, including working with states to train staff on reporting of payments and identifying and resolving reporting problems.

The second report, released on August 27, was entitled Information Obtained by States about Applicants’ Assets Varies and May Be Insufficient. This report focused on states’ requirements and practices for assessing the financial eligibility of applicants for Medicaid long-term care coverage. From October 2011 to November 2011, GAO surveyed Medicaid officials from the 50 states and the District of Columbia, focusing on three areas of eligibility:

- Required documentation of assets from applicants.
- Information obtained from third parties to verify applicants’ assets.
- Information about applicants’ assets that could be used to implement eligibility related Deficit Reduction Act provisions.

Federal law prevents individuals from artificially impoverishing themselves in order to establish financial eligibility for Medicaid. GAO determined that the documentation required from applicants and information obtained from third parties was questionable, and that it was unclear whether some states had obtained sufficient information. GAO concluded that “…it may be reasonable for states to adhere to a risk-based approach and focus their eligibility determination efforts on applicants who appear to be more likely to have assets or to have transferred assets that would make them ineligible.”

The full GAO reports can be found, respectively, at www.gao.gov/products/GAO-12-694 and www.gao.gov/products/GAO-12-749.

State Maintenance of Effort Spending Is the Focus of New Federal Report

The U.S. Government Accountability Office recently released a state assessment report on maintenance of effort (MOE) spending, as related to the Temporary Assistance for Needy Families (TANF) block grants, medical and dental services, employment assistance, and family stabilization services. The report, entitled More States Counting Third Party Maintenance of Effort Spending, highlighted the jump (from three to 13) of the number of states that reported counting third party nongovernmental expenditures toward their state MOE spending. The report discusses the extent to which states count third party nongovernmental expenditures toward their MOE requirements, the different types of third party nongovernmental benefits and services provided, and the reasons that the surveyed states cited for counting third party nongovernmental MOE. In the report GAO noted:

“Some concerns have been raised that counting third party nongovernmental expenditures towards a state’s MOE may not be in keeping with the intent of MOE requirements directed toward state and local governments. Concerns have also been expressed that this option may reduce the overall level of services available to low-income families in a state if, for example, that state counts services already provided by third parties while reducing its own spending.”

GAO concluded that 17 states reported that they definitely or probably will count third party MOE spending in the near future. The full MOE report can be found at www.gao.gov/products/GAO-12-929R.
Governing magazine held its third “Cost of Government Summit” bringing together practitioners and policy makers to discuss the simple question of “how do we afford the government that we need?” NASACT members in attendance included Thomas Salmon, state auditor of Vermont; Kim Wallin, state controller of Nevada; and Martin Hubert of the Texas State Comptroller’s office. The day and a half event included timely discussions of state budgets, pensions, municipal bankruptcy, health benefits, infrastructure, taxes, revenues and fees, and engaging citizens in participatory democracy.

While state and local governments continue to face tough economic challenges, they are also adjusting to an important period of transformation. Doing more with less and reevaluating the role of government were themes that appeared in almost every panel discussion.

The summit kicked off with an overview of a report from the State Budget Crisis Task Force, which reviewed six states to examine threats to near- and long-term fiscal sustainability. The six states examined were California, Illinois, New Jersey, New York, Texas and Virginia. Donald Boyd, executive director of the task force, explained the six biggest threats that face state and local governments across the country today:

- Medicaid spending growth is crowding out other needs.
- Federal deficit reduction threatens state economies and budgets.
- Underfunded retirement promises create risks for future budgets.
- Narrow, eroding tax bases and volatile tax revenues undermine state finances.
- Local government fiscal stress poses challenges for states.
- State budget laws and practices hinder fiscal stability and mask imbalance.

While the report does not make specific recommendations, the task force does suggest a number of procedural areas governments should be reviewing. Specifically, the report states that the public needs a transparent, accountable government, and that best practices should be developed to improve the quality and utility of financial reporting. Additionally, the task force notes the need for multi-year planning and budgeting approaches as part of fiscal planning and suggests that governments invest in better tools to manage the business cycle. The task force also believes that governments should consider disclosure of potential pension plan shortfalls and risks and develop and adopt rules for the responsible management of those pension plans. The report also encourages the accounting for and recognition of post-employment benefits and stresses the importance of being prepared for the effects of federal deficit reduction and changes in the federal tax system on states and localities. Further, it is suggested that state revenue systems be reformed in a way that minimizes volatility and that the relationship between the federal government and the states be carefully examined.

The findings of the state crisis task force were followed by an interactive discussion of managing costs and how officials are communicating cost reduction strategies. Some municipalities are encouraging creativity and efficiency to achieve cost reductions and efficiencies while others seem to be questioning which functions are core to government and which are those that should be privatized.

The summit also held an interesting session on pensions and what states are doing to address the issue. The session included lively participant interaction from both public officials that support defined benefit pension plans and those that believe governments should seriously consider a switch to a defined contribution or hybrid plan to achieve cost savings.

The pension discussion was followed by a debate on the pros and cons of municipal bankruptcy and a discussion of how states and municipalities will fund infrastructure going forward particularly in light of decreasing federal funding. Natwar Gandhi, D.C.’s chief financial officer, summed up the current state of infrastructure in this country noting that “we are living off of old infrastructure which inhibits competitiveness and efficiencies—infrastructure is an investment but we are not investing.” Mr. Gandhi further believes that we should be funding infrastructure as it will help grow the economy and government should be looking at public-private partnerships as a way to fund successful projects.

The summit concluded with a discussion of taxes and revenue and the benefits of participatory democracy. How do governments operate when the idea of increasing revenue is not supported by the citizenry? Participants stressed the growing need for transparency to develop trust among the citizens in hopes that they will support government goals in the future. Suggestions included the need for coalition building and looking at long-term solutions keeping in mind that you can’t solve a financial crisis through revenue alone.

Governing intends to hold a fourth summit in 2013 to further explore the current challenges facing state and local governments and the innovative ways officials are meeting those challenges while encouraging growth.
NASC Business Meeting Highlights
By Kim O’Ryan, NASC Association Manager

The National Association of State Comptrollers held a business meeting on August 13, in Seattle, Washington, in conjunction with the NASACT Annual Conference. President Richard Eckstrom, comptroller general of South Carolina, welcomed everyone and recognized new state comptrollers in attendance at the conference - Alan Skelton, Georgia’s state accounting officer, and Lynne Bajema, Oklahoma’s state comptroller.

Committee Reports

Advisory Committee for State Comptrollers Technical Activities and Functions
Anna Maria Kiehl, state comptroller of Pennsylvania and chair, reported that 42 states completed the short-term section (chapters 1-7) of the book and 39 states completed the long-term section (chapters 8-14). The responses are currently being compiled and the book should be completed in September. The book will be posted on NASACT’s website and states will have the option of having a hard copy of the book mailed to them.

Committee on the Financial Plan
Paul Christofferson, administrator of the Montana State Accounting Division and chair, provided the finance report. For FY 2012, the positive projected amount is mainly due to an increase in sponsorship of the NASC conference along with high attendance at the conference. Two states also contracted for services related to benchmarking.

Committee on Outreach
Tom White, state comptroller of Alabama and member of the committee, reported that since the March 2012 meeting, NASC has the following new members (mentors have been assigned to all new members):
• Georgia: Alan Skelton, state accounting officer
• Oklahoma: Lynn Bajema, state comptroller
• West Virginia: Dave Mullins, acting finance director
• Guam: Benita Manglona, comptroller

Committee on Accounting and Financial Reporting
David McDermott, state controller of Colorado and co-chair, said that since the March meeting the committee has responded to two due process documents and one is currently out for comment. Richard Eckstrom provided testimony for the Economic Condition Reporting: Financial Projections preliminary views document. Earlier in the week, David Bean provided a report from the GASB during the NASACT CARA meeting. The group also heard from Martin Benison, chair of the Governmental Accounting Standards Advisory Council.

Program Committee
Kim Wallin, state controller of Nevada and chair, reported that the 2013 conference will be held in Columbia, South Carolina, on March 20-22 at the Marriott. The committee will hold the first conference call in October to begin planning the program for the conference.

Middle Management Conference Committee
Lisa Pusich, deputy director of the Division of Finance in Alaska and co-chair, reported that the 2013 Middle Management Conference will be held on April 17-19 in St. Paul, Minnesota.

Site Committee
David Von Moll, comptroller of Virginia and chair, reported that Mr. Eckstrom will host the 2013 NASC Annual Conference in Columbia, South Carolina, and Ms. Wallin has agreed to host the 2014 conference in Nevada (location to be determined).

Resolutions Committee
John Reidhead, director of the Utah Division of Finance and chair, reported that there were no resolutions submitted for consideration.

Information Sharing Groups
Reports were also provided by the following NASC groups:
• Paperless Accounts Payable (Alan Skelton, Georgia)
• State Government Payroll (Kathy Sheppard, Massachusetts)
• Transparency (Clark Partridge, Arizona)
• Travel & P-card (Bob Jaros, Colorado)

Other Topics
Several other topics were discussed during the meeting:
• The new benchmarking contract with The Hackett Group has been signed and the association is in the process of signing contracts with vendors for benchmark-related consulting services.
• The FAF’s Independent Academic Study of the Scope of the GASB (Ken Smith, lead researcher).
• The exchange program with the Mexican state controllers.

Next Meeting or More Information
The next scheduled NASC business meeting will occur on Thursday, March 21 in Columbia, South Carolina, in conjunction with the 2013 NASC Annual conference.

Minutes from past meetings of the NASC members can be found at http://www.nasact.org/nasc/aboutus/meetings.cfm (members only content). Questions about the content of this article may be directed to Kim O’Ryan at koryan@nasact.org.
NSAA Business Meeting Highlights
By Sherri Rowland, NSAA Association Director

The National State Auditors Association held a business meeting on August 13 in Seattle, Washington, in conjunction with the 2012 NASACT Annual Conference. NSAA President Elaine M. Howle, state auditor of California, led the meeting.

Committee Reports

Audit Standards and Reporting
Auston Johnson, state auditor of Utah and chair, reported that there is one GASB exposure draft out for comment entitled Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions.

Auditor Training
Sherri Rowland, NSAA association director, provided the report. Rebecca Otto, state auditor of Minnesota, has agreed to host the 2013 Middle Management Conference in St. Paul. The conference will be held April 17-19 at the St. Paul Hotel. The room rate is $121 per night.

Auditor’s Education Foundation
Thomas Salmon, state auditor of Vermont and chair, reported that for FY 2013, due to very low interest rates, NSAA will only provide scholarships for new members to attend the NSAA annual conference.

E-Government
Ms. Rowland provided the report. The 2012 NSAA IT Workshop and Conference will be held September 25-28, in Nashville, Tennessee, at the DoubleTree Hotel. The room rate for the conference is $129.

Human Resources
Ms. Otto, chair, reported that the committee continues its quarterly information sharing calls, featuring a different topic on each call. The most recent call was held on Wednesday, July 25, and featured the topics of team building and HR as a strategic business partner.

Peer Review
Ms. Howle, chair, reported that the committee is in the process of revising the Peer Review Manual for recently released standards including the 2011 revision to Government Auditing Standards (Yellow Book), as well as the American Institute of Certified Public Accountants’ clarified standards. The performance audit and attestation checklists have been updated, and the committee will soon be focusing on revisions to the financial audit checklists. The committee will also be revising the reporting process, including eliminating the letter of comments, to align with the reporting language contained in the Yellow Book.

Performance Audit
Ms. Rowland reported on behalf of Steve Eells, state auditor of New Jersey and chair. The committee continues to host information sharing calls on performance audit topics. A call that was originally scheduled for August 2 was postponed to September 6. The call will feature a roundtable discussion of performance audit topics, including critical thinking.

Single Audit
David Martin, auditor general of Florida and chair, reported that NSAA continues to wait for the U.S. Office of Management and Budget’s proposed guidance for grants and cooperative agreements. It is expected to be posted in the Federal Register in late August. A call will be scheduled in September/October to discuss the proposed guidance.

Resolutions
William G. Holland, auditor general of Illinois and chair, made a motion to the members to approve the following five resolutions:

1. Recognizing Neria Douglas, state auditor of Maine (her term will end at the end of the year).
2. Recognizing Auston Johnson, state auditor of Utah (his term will end at the end of the year).
3. Recognizing Walter Kucharski, auditor of public accounts of Virginia (he will retire on December 31, 2012).
4. Recognizing Thomas Salmon, state auditor of Vermont (his term will end at the end of the year).
5. Recognizing Art Hayes, director, Division of State Audit, of the Tennessee Office of the Comptroller of the Treasury (he will retire in January 2013).

The motion was seconded and the resolutions were unanimously approved.

President Howle verbally recognized Tom Meseroll, assistant state auditor of New Jersey who will be retiring on October 1 after a 39-year career with the state of New Jersey.

Time and Place
Ms. Otto, chair, reported that the 2014 NSAA Annual Conference will be held in St. Paul, Minnesota. She is working with NSAA staff to finalize dates and a hotel contract.

2013 Annual Conference
Ms. Howle, who will host the 2013 conference, reported that it will be held June 11-14, in Monterey, California, at the Portola Hotel. The room rate is $134 per night. Ms. Howle formed a task force to examine the issue of whether NSAA should allow sponsorships of the annual conference.

Next Meeting or More Information

The next NSAA business meeting is scheduled for June 13, 2013, in conjunction with NSAA’s annual conference in Monterey, California.

Minutes from past meetings of NSAA’s members can be found at www.nasact.org/nsaa/aboutus/meetings.cfm (members only content). Questions about the content of this article may be directed to Sherri Rowland at srowland@nasact.org.
The Board tentatively agreed to propose that the recognition criteria for financial statements prepared using the economic resources measurement focus continue to include the first criterion proposed in the preliminary views—that the item meets the definition of an element of the financial statements. The Board tentatively decided that the second criterion—that the item be measurable with sufficient reliability—be modified to indicate that measurement of the item sufficiently reflects the qualitative characteristics described in Concepts Statement No. 1, Objectives of Financial Statements. The Board believes that emphasis on or reference to only one or some of the qualitative characteristics would inappropriately imply a hierarchy among the qualitative characteristics.

The Board also tentatively agreed to propose a three-step hierarchy for recognition concepts for financial statements prepared using the economic resources measurement focus. Under this hierarchy, an item is first evaluated to determine whether it meets the definition of an asset or liability. If the item does not meet the definition of an asset or liability, the item is evaluated to determine whether it meets the definition of a deferred outflow of resources or deferred inflow of resources. If the item does not meet the definition of a deferred outflow of resources or deferred inflow of resources, the item would be evaluated to determine whether it meets the definition of an outflow of resources or inflow of resources.

Continuing its evaluation of feedback received pursuant to the proposed measurement concepts in the preliminary views, the Board tentatively agreed that the approach to measurement concepts should continue to reflect the following major features:

- The objective of measurement concepts is to establish a framework for when each of the two primary measurement approaches (initial amounts and remeasured amounts) should be used.
- A single measurement approach need not be applied to all assets and liabilities.
- The overriding criterion in evaluating the measurement approaches is which one best promotes achievement of the applicable objectives of financial reporting, with consideration of the qualitative characteristics of information in financial reporting.

After consideration of respondent feedback on various aspects of the proposals, the Board also tentatively affirmed its proposed preliminary views that (1) initial amounts are more appropriate for assets that are used directly in providing services, (2) remeasured amounts are more appropriate for assets that will be converted to cash (for example, financial assets), and (3) remeasured amounts are more appropriate for variable-payment liabilities, such as compensated absences or pollution remediation obligations, without modification.

Fair Value—Measurement and Application
In its project addressing fair value measurement and application, the Board discussed issues that relate to investment

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assets, beginning with what constitutes an investment asset. The Board tentatively agreed to propose that an investment asset be defined as “a security or other asset that a government holds primarily for the purpose of income or profit, and its present service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry.”

In considering whether land that includes identifiable and separable land rights could be bifurcated between investment asset and capital asset classifications, the Board determined that further exploration of the application of this concept with stakeholders is necessary before any tentative decisions could be reached. The GASB staff will conduct this further research effort and will present the results of this research to the Board at a future meeting.

Taking the tentative definition of an investment asset into account, the Board tentatively decided to propose that a capital asset held for sale be reclassified as an investment asset when that asset’s service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services. The Board also tentatively agreed to propose that a capital asset held for sale that nevertheless continues to be used to provide services continue to be classified as a capital asset.

In examining real property that is partially used by the government and partially rented to other organizations—split-use property—the Board deliberated whether to classify the real property as an investment asset or a capital asset. That is, the Board considered whether the real property should be classified according to its predominant use or bifurcated in proportion to its use. The Board tentatively agreed to propose that split-use property be bifurcated according to its proportion in use. Finally, the Board tentatively agreed to propose that securitized mortgage loans continue to be classified as investments.

The Board tentatively agreed to propose that as a general proposition, investment assets be reported at fair value. Investment types that would be included in a fair value measurement proposal include:

- Investments that are already measured at fair value.
- Alternative investments that are reported by endowments.
- Equity securities, stock warrants, and stock rights that do not have readily determinable fair values.
- Intangible assets that meet the proposed definition of investments.
- Land and land rights that are classified as investments.

The Board tentatively agreed to propose that when a capital asset is held for sale and its present service capacity is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry, that asset be measured at the lower of its carrying amount or its fair value.

Addressing the measurement basis of a capital asset that is classified as an investment asset but then returns to its original classification as a capital asset, the Board tentatively agreed to propose that such an asset be reclassified as a capital asset and that the asset be measured at the lower of (1) its carrying amount before the asset was initially reclassified as an investment, adjusted for any depreciation expense that would have been recognized had the asset been continuously classified as a capital asset, or (2) its fair value at the date of the subsequent decision not to sell.

Next, the Board discussed the existence of alternative investments within the governmental environment and tentatively decided to propose that when an asset’s fair value measurement is not readily determinable, the guidance established in the Financial Accounting Standards Board’s Accounting Standards Update No. 2009-12—Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), should be used. Accordingly, such assets would be measured using the practical expedient of net asset value per share without adjustment to other measures of fair value.

In addition, Board discussed specific application issues. The project staff conducted a series of interviews with the project task force and other stakeholders from a variety of backgrounds. The results of those interviews led to a discussion of potentially modifying the tentative definition of an investment asset to address bond reserve assets that provide resources set aside for the benefit of creditors. These bond reserve assets, the Board tentatively decided, meet the criteria of “based solely on its ability to generate cash” and thus are already sufficiently covered by the working definition of an investment asset.

**GAAP Hierarchy**

The Board reviewed and discussed the various characteristics of accounting guidance and tentatively agreed to propose that for a source of guidance to be categorized in the highest level of the hierarchy of generally accepted accounting principles (GAAP hierarchy), the source should be (1) formally approved by the Board for the purpose of creating, amending, superseding, interpreting, clarifying, explaining, or elaborating on standards and (2) exposed for a period of public comment.

The Board also discussed the structure of the existing GAAP hierarchy, as presented in Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, and explored potential revisions to it. The Board tentatively agreed to propose to reduce the GAAP hierarchy to two levels: authoritative and nonauthoritative. While the Board tentatively agreed to propose the requirements for a source of accounting guidance to be categorized in the highest level of the GAAP hierarchy, the Board will explore the merits of classifying nonauthoritative sources of accounting guidance in order of preference at a later date.

After tentatively agreeing to propose a modified GAAP hierarchy, the Board discussed the characteristics of the following sources of guidance and where the guidance should be categorized in the GAAP hierarchy: GASB concepts statements, GASB technical bulletins, GASB implementation guides, industry audit and accounting guides from the American Institute of Certified Public Accountants, AICPA statements of position, AICPA practice bulletins, and the FASB accounting standards codification.

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The Board considered GASB concepts statements and their placement within the tentatively proposed GAAP hierarchy. Even though GASB concepts statements meet the tentative requirements to be considered the highest level of GAAP, the Board tentatively agreed to propose that GASB concepts statements remain non-authoritative to avoid confusion when applying guidance.

The Board also considered the existing due process for GASB technical bulletins as well as the intended purpose of the technical bulletins. The board tentatively agreed to propose that the due process for GASB technical bulletins be amended to include formal approval by the Board, rather than Board clearance, and that GASB technical bulletins be categorized in the highest level of the GAAP hierarchy.

After discussion of the placement of GASB implementation guides, the Board tentatively agreed to propose that the due process be amended to include public exposure and formal approval by the Board pending discussions on the approach needed to operationalize this proposal at a later date.

The Board also considered the placement of the FASB Accounting Standards Codification (ASC) within the proposed GAAP hierarchy, as the FASB ASC did not exist at the time of issuance of GASB Statement 55. The Board tentatively agreed to propose that the FASB ASC be categorized as nonauthoritative “other accounting literature” in the tentative GAAP hierarchy.

The Board discussed the existing placeholder in the existing GAAP hierarchy in Statement 55 for consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities. After determining that the standards-setting process has sufficiently evolved since the inclusion of the placeholder language, the Board tentatively agreed to propose that the tentative GAAP hierarchy exclude any reference to consensus positions of that group of accountants organized by the GASB.

Government Combinations

The Board reviewed a summary of feedback received from respondents to the exposure draft Government Combinations and Disposals of Government Operations. The Board discussed several matters raised by respondents to the exposure draft with regard to the proposed statement’s scope and applicability, types of government combinations, and the accounting provisions for government mergers.

Considering whether the scope of the proposed statement should be expanded to include accounting and financial reporting guidance for acquisitions of other entities when legal separation is maintained, the Board tentatively decided to carry forward the proposed statement’s scope without modification. The Board agreed that the accounting and financial reporting issues related to acquisitions of entities that retain legal separation should be addressed as a separate potential project.

The Board then discussed respondents’ comments about the proposed statement’s service continuation provision. Certain respondents sought clarification about the purpose and application of this provision. The Board reaffirmed its belief that the condition of service continuation should be utilized for determinations that transactions are not acquisitions or contributions of assets. The Board tentatively approved further clarifications of the purpose and application of the proposed statement’s service continuation provision.

Some respondents sought clarification about the meaning of significant consideration for purposes of distinguishing between types of government combinations. The Board tentatively agreed that the consideration provided for government acquisitions need only to be significant in relation to the assets and liabilities acquired. Additionally, the Board discussed and tentatively agreed that refinancing the liabilities of an acquired entity should not constitute consideration for purposes of qualifying as a government acquisition.

In addition, the Board considered respondents’ comments regarding the merger date for continuing governments. The Board tentatively agreed that the merger date provisions for continuing government mergers should be carried forward without modification. The Board then considered comments about the proposed statement’s option to conform accounting principles for government mergers and tentatively agreed to carry forward the proposed statement’s provisions.

The Board next considered respondents’ comments regarding adjustments of capital assets for impairment for government mergers involving a continuing government and tentatively agreed that capital asset impairment should be considered as of the merger date for capital assets of a dissolving government.

Lastly, the Board considered whether further guidance should be included in the proposed statement for reporting government combinations in governmental fund financial statements and tentatively agreed that the proposed statement’s guidance should be carried forward without further modification.

Other Postemployment Benefits

In its project on other postemployment benefits, the Board revisited the results of staff research using annual financial reports and reconsidered some conceptual issues related to accounting and financial reporting for OPEB. The Board reaffirmed its tentative decision to propose that an employer’s net obligation for OPEB, when determined by projecting future benefit payments, including probabilities of future events, discounting to present value using an appropriate rate, attributing the costs to periods using an appropriate actuarial cost allocation method, and subtracting net position accumulated in a qualifying trust, meets the definition of a liability in Concepts Statement No. 4, Elements of Financial Statements. (Concepts Statement 4 defines liabilities as “present obligations to sacrifice resources that the government has little or no discretion to avoid.”)

In contrast to its prior tentative decision, the Board determined that it was not appropriate to conclude at this time whether the employer’s net liability for OPEB is measurable with sufficient reliability for recognition in the financial statements. The issue will be reconsidered later in the project when the details of a proposal related to measurement of the net OPEB liability are determined.

(continued from page 9)
In addition, the Board discussed the differences between pensions and OPEB not provided through qualifying trusts, and pensions and OPEB provided through qualifying trusts, as well as the various approaches of accounting for pensions and OPEB not provided through qualifying trusts used by standards setters. The Board also considered the appropriateness of accounting for pensions and OPEB not provided through qualifying trusts using an approach similar to that in Statement No. 68, Accounting and Financial Reporting for Pensions.

The Board tentatively decided that an employer’s obligation for pensions and OPEB provided outside of a trust or equivalent arrangement in defined contribution arrangements and defined benefit single-employer and agent employer arrangements meets the definition of a liability in Concepts Statement No. 4.

**Economic Condition Reporting: Financial Projections**

The Board discussed a summary of comments received in response to the preliminary views document Economic Condition Reporting: Financial Projections, staff analysis of those comments, and staff recommendations relating to the components of fiscal sustainability information. The Board plans to consider all of the due process feedback received as it redetermines the various proposals included in the preliminary views before determining the future direction of the project.

The Board tentatively reaffirmed that Component 1 (projections of total and major individual cash inflows), Component 2 (projections of total and major individual cash outflows), and Component 3 (projections of total and major individual financial obligations) are necessary to assist users in assessing a governmental entity’s economic condition, including fiscal sustainability, and tentatively agreed that major cash inflows be projected by major individual source.

The Board tentatively agreed to add a proposed requirement that the projections of cash inflows and outflows (Components 1 and 2) include beginning and ending cash and cash equivalent balances for all projection periods.

Regarding projections of annual debt service payments (Component 4), the Board tentatively agreed that they should be included within the projections of cash outflows (Component 2) and therefore should be removed as an individual component of fiscal sustainability information. The Board tentatively agreed that cash outflows related to debt service payments always be considered “major cash outflows” and therefore be individually projected.

In addition, the Board tentatively agreed that the assumptions used in the projections of cash outflows related to debt service payments include the minimum debt service requirements disclosed in the notes to the financial statements, plus the debt service on debt obligations that have been authorized and not yet issued, but are expected to be issued within the projection period and that this assumption be disclosed.

The Board directed the project staff to conduct additional user outreach and to include questions on intergovernmental interdependencies (Component 5) and how essential they believe the narrative discussion of these interdependencies is to their assessment of a governmental entity’s fiscal sustainability.

Next, the Board discussed the comments received relating to Chapter 4 and Questions 2–5 of the preliminary views. The discussion focused on the (1) basis and methodology for projections, (2) basis of accounting for projected information, (3) identification, development, and disclosure of assumptions, and (4) projection period.

**Basis and Methodology for Projections**

The Board tentatively reaffirmed its preliminary view that financial projections should be (1) based on current policy, (2) informed by historical information, and (3) adjusted for known events and conditions that affect the projection periods. The Board also tentatively reaffirmed its preliminary view that current policy includes policy changes that have been formally adopted by the end of the reporting period but will not be effective until future periods.

The Board tentatively agreed to clarify that:

1. In the absence of current policies effective through the entire projection period, the assumptions used for making financial projections may be based on historical trend information adjusted for known future events or conditions.
2. The assumptions and financial projections would include current policy and known events and conditions that existed as of the auditor’s report date, rather than as of the end of the fiscal year.
3. Any law pertaining to the preparation of a budget, including a balanced budget requirement, is not relevant to the financial projections being proposed in this project because the process of balancing a budget is a prediction or forecast of future actions and should therefore not be included in “current policy” as defined in the preliminary views.
4. Authorized capital expenditures would be considered current policy. The Board recognized that in many cases, capital expenditures are not “authorized” until the funding has been authorized (bond proceeds) or awarded (grant proceeds). However, the Board tentatively agreed that in those instances in which capital expenditures have been authorized before securing authorized or awarded funding, the notes to this information should explain this gap between the projections of cash outflows and cash inflows.

**Basis of Accounting for Projected Information**

The Board tentatively reaffirmed its preliminary views that inflows and outflows should be projected on a cash basis of accounting and that financial obligations should be projected on an accrual basis of accounting. The Board also reached a tentative agreement to include a requirement to disclose the basis of accounting being used for the financial projections.

**Identification, Development, and Disclosure of Assumptions**

The Board tentatively reaffirmed its preliminary view that the identification and development of assumptions for making financial projections should be guided by a principles-based approach that requires assumptions to be based on relevant historical information, as well as events and conditions that have...
Roger Norman Wins Outstanding CPA in Government Award

Roger Norman was recently honored by the American Institute of Certified Public Accountants as the state winner of the 2012 Outstanding CPA in Government Award. Mr. Norman is legislative auditor for the state of Arkansas. As the Arkansas legislative auditor, he manages 275 employees to provide nearly 1,000 audits, reports and special projects annually, to provide timely, accurate and relevant information to assist the General Assembly in making policy decisions and to provide proper accountability, stewardship and transparency of public funds and resources to meet the public’s needs. Mr. Norman is a member of the AICPA, the Arkansas Society of CPAs and the Arkansas Bar Association. He currently serves on the executive committee of the National State Auditors Association.

John H. Fisher was posthumously awarded the federal-level award. Mr. Fisher was the audit manager and single audit coordinator for the U.S. Department of Health and Human Services. He was a conspicuous embodiment of the ethic of selfless service to the nation. He was an exceptional individual who dedicated his life’s work to improving the integrity of federal programs. He was recognized nationally as an expert in governmental accounting, particularly in the highly complex, specialized and rapidly evolving field of non-federal audits.

The AICPA did not make an Outstanding CPA in Government Award to a local-level government employee this year.

A New NASC Representative is Named in Delaware

Kristopher Knight has been designated by the Delaware secretary of finance, Thomas Cook, as the comptroller representative for NASACT and the National Association of State Comptrollers.

Mr. Knight is the director of the Division of Accounting for the state of Delaware, Department of Finance.

Mr. Knight joined the Division of Accounting in February of 2011 from KPMG, LLP in Philadelphia, a leading U.S. audit, tax, and advisory services firm, where he worked for eight years. In his position with KPMG, LLP, as a senior manager, he was responsible for audit engagements of various clients, including the University of Delaware and the state of Delaware. Mr. Knight has a bachelor of science degree in business administration and is a licensed CPA in both Delaware and Pennsylvania.

As director of the Division of Accounting (DOA), Mr. Knight oversees internal controls, payroll compliance and financial reporting for all Delaware state agencies. He provides leadership and direction in the management of all financial accounting for the state. Mr. Knight works with the DOA management team in three key areas: Delaware’s ERP system; payroll and the state’s comprehensive annual financial report and single audit report.

Barrette Is Appointed Treasurer in Washington, D.C.

Jeffrey Barrette was appointed acting treasurer and deputy chief financial officer for the Washington D.C. Office of Finance and Treasury in July 2012. As acting treasurer and deputy CFO, he manages the district’s treasury programs associated with its annual $10 billion operating budget and $1 billion capital budget. This includes management of the district’s banking and investment activities, check and electronic receipts, and disbursements, and its debt issuance and repayment activities.

Prior to being named acting treasurer, Mr. Barrette was the associate treasurer of asset management and prior to that a managing director for the registered investment advisory firm, Barrier Investments LLC. Prior to working for Barrier, he was an investment portfolio manager for Capital One Financial. Mr. Barrette has extensive experience with fixed-income and pension investment programs. He is an ex-officio trustee of the D.C. Retirement Board.

Mr. Barrette is a graduate of Radford University, with a bachelor’s degree in business administration/finance.

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Projection Period

The Board tentatively agreed that annual financial projections should be made for five individual years beyond the reporting period for the purpose of external reporting, rather than for a minimum of five years.

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The GASB Update is provided on a bi-monthly basis by staff from the GASB.
### Calendar of Events

#### 2012

- **October 10**  ■  Webinar – Improving Statewide Reporting & Performance Data Analysis: Success Stories

#### 2013

- **March 19**  ■  NASACT Executive Committee Meeting, Columbia, SC
- **March 20-22**  ■  NASC Annual Conference, Columbia, SC
- **April 17-19**  ■  Middle Management Conference, St. Paul, MN
- **June 11-14**  ■  NSAA Annual Conference, Monterey, CA
- **August 10-14**  ■  NASACT Annual Conference, Boston, MA

#### 2014

- **August 9-13**  ■  NASACT Annual Conference, Santa Fe, NM

### Affordable Training Options

By Donna Maloy, Conference Manager

With the ever increasing budget constraints and restrictions for out of state travel, NASACT wants you to know there are affordable training options available without having to incur the costs of travel.

- **NASACT’s Training Seminars Program** will bring training to you. We contract with a wide range of qualified presenters who cover topics such as interviewing techniques, standards updates, governmental accounting, internal controls and fraud. If one of our standard training packages isn’t quite right for your needs, we are happy to customize training specifically for you. To find out more information about NASACT’s Training Seminars Program, download the training catalog at [www.nasact.org/conferences_training/nasact/conferences/TrainingSeminarsProgram/training_seminars_12.pdf](http://www.nasact.org/conferences_training/nasact/conferences/TrainingSeminarsProgram/training_seminars_12.pdf) or contact Fay Kurkjy at fkurkjy@nasact.org.

- **NASACT’s webinars** are another way to get affordable training. NASACT schedules on average four webinars per year. For one registration fee, an office can have as many people participate as they want. CPE is granted to all participants. This is an extremely cost-effective way to gain training and CPE without having to travel. The next webinar, *Improving Statewide Reporting and Performance Data Analysis: Success Stories*, is scheduled for October 10, 2012. There is an article on page 2 of this newsletter about the webinar, or to get more details, visit [www.nasact.org/conferences_training/events.cfm](http://www.nasact.org/conferences_training/events.cfm). If there is a specific topic that you would like us to explore offering as a webinar, please contact Kinney Poynter at kpoynter@nasact.org.

- **NASACT’s Travel Assistance Program** was recently expanded to provide not only up to $1,000 in travel assistance to all members or their designees, but also to cover the cost of registration to NASACT’s annual conference (a $700 value). Be sure to put the 2013 NASACT Annual Conference, August 10-14 in Boston on your calendar!