FAF Names New Trustee, Issues Policy on GASB Scope of Authority

On November 19, the Financial Accounting Foundation made two announcements: the FAF has selected Nancy K. Kopp, state treasurer of Maryland, to serve as the newest government trustee, and the FAF issued its final policy on the scope of authority of the Governmental Accounting Standards Board.

Nancy K. Kopp, FAF’s Newest Trustee

Treasurer Kopp will begin serving on the FAF Board of Trustees, effective January 1, 2014.

“As someone who has devoted her distinguished career to finance and budget issues, Nancy Kopp brings to the Board of Trustees extensive experience in public finance and accounting,” said FAF Chairman Jeffrey J. Diermeier. “I am pleased to welcome her to the board, and look forward to the professional government perspective she’ll add to our discussions and decisions.”

First elected as Maryland state treasurer in February 2002, and re-elected to full four-year terms in 2003, 2007, and 2011, Treasurer Kopp is the second woman to serve in that post. In addition to her responsibility for managing the Office of State Treasurer, as a constitutional officer and a representative of the Maryland General Assembly she holds positions of leadership on key state financial planning committees.

Prior to her election as treasurer, she represented the Bethesda area in the Maryland House of Delegates for 27 years. As a member of the House Appropriations Committee during her tenure as delegate, she chaired the Joint Committee on Spending Affordability, and served on the Capital Budget Subcommittee, Subcommittee on Pensions, and Joint Committee on Budget and Audit.

Currently, Treasurer Kopp is a member of the National Association of State Treasurers and chairs its Legislative Committee. She is also an active member and a past president of NASACT.

A graduate of Wellesley College, Treasurer Kopp holds a master’s degree in government from the University of Chicago. In 2012, she was inducted into the Maryland Women’s Hall of Fame.

Treasurer Kopp’s term on the Board of Trustees extends to December 31, 2018. She replaces retiring trustee Cynthia P. Eisenhauer, a government financial management consultant and former chief of staff for Iowa Governor Tom Vilsack, whose term ends on December 31, 2013.

GASB Scope of Authority

The FAF’s newly adopted policy on GASB’s scope of authority clarifies the characteristics of the information the GASB may incorporate into the financial accounting and reporting concepts, standards, and guidance that it issues for state and local governments.

The new policy, described in GASB Scope of Authority: Consultation Process Policy, is effective immediately. Key elements of the new policy will be included in the GASB’s Rules of Procedure.

The policy outlines a pre-agenda consultation process for the GASB and the FAF’s Standard-Setting Process Oversight

(continued, next page)
Committee to follow in determining whether information the GASB might consider for standard-setting activity is “financial accounting and reporting information” within the scope of the GASB’s standard-setting mission. Scope considerations of the GASB and the Oversight Committee will be based on accounting and reporting characteristics currently in GASB’s concepts statements. The consultation will not focus on a specific standard-setting project.

“In our initial proposal, stakeholders were concerned that the proposed process could involve the trustees inappropriately in the GASB’s agenda setting and interfere with the GASB’s standard-setting process and independence,” said FAF Chairman Jeffrey J. Diermeier. “The consultation policy clarifies that the trustees’ authority lies in their oversight responsibility, and in their authority to determine whether information constitutes financial accounting and reporting. Consultation in the pre-agenda phase limits the trustees’ involvement to advising and counseling the GASB about whether information is considering for standard-setting activity is within the context of financial accounting and reporting.” (To view NASACT’s letter to the FAF about its original proposal and the revised proposal, visit www.nasact.org/nasact/positions/GASB.cfm.)

GASB Chairman David A. Vaudt said, “The GASB is pleased that the trustees addressed stakeholder concerns and established a consultation process based on the GASB’s concepts statements. The final policy strikes the right balance by maintaining the independence of the GASB, while ensuring appropriate oversight by the trustees.”

Under the final policy, the GASB will classify governmental financial information as follows:

- **Group 1**: Information that the GASB assesses is clearly within its standard-setting authority that meets the objectives, and has the characteristics, of governmental financial reporting currently described in GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, and GASB Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*.

- **Group 3**: Information that the GASB assesses as clearly outside GASB’s standard-setting authority (such as information that has no relationship to information presented in general purpose external financial reporting, or does not meet at least one of the objectives of governmental financial reporting as defined in GASB Concepts Statement 1 and GASB Concepts Statement 3).

- **Group 2**: Information that does not clearly possess the characteristics of Groups 1 or 3, but that meets at least one of the objectives of governmental financial accounting currently set forth in the GASB’s existing Concepts Statements 1 and 3.

When the GASB believes that certain Group 2 information it is considering for standard-setting activities is within its scope, the policy provides that the GASB and the Oversight Committee will consult on whether the information constitutes “financial accounting and reporting information.” The GASB and the Oversight Committee will consider the classification of Group 2 information based on characteristics currently contained in the GASB’s concepts statements.

The final, approved policy revised the original proposal so that the GASB would consult with the Oversight Committee in the pre-agenda phase. The policy clarifies that the trustees’ authority lies in their oversight responsibility, and their authority to determine whether information constitutes “financial accounting and reporting information.” It also reiterates that the trustees will have no involvement in setting the GASB’s agenda or otherwise being involved in the GASB’s independent standard-setting process.

Previously issued GASB concepts, standards, and guidance are not subject to the additional consultation process unless the GASB expands the scope of existing concepts, or expands or reclassifies the information covered by existing standards or guidance.

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**Is Your State Headed in the Right Direction?**

**NASACT’s Benchmarking Program Can Help You Find Out!**

NASACT’s program offers benchmarking services in four areas: (1) financial management, (2) information technology, (3) human resources/payroll, and (4) procurement. States can compare themselves to other states and the private sector. The program also allows comparisons of agencies within the state to each other and to agencies within other states. Additional executive advisory services are also available through the program.

To find out more, email Kim O’Ryan at koryan@nasact.org.
SF-SAC Form Changes Released, New Clearinghouse Data Entry System Goes Live

The U.S. Office of Management and Budget is expected to soon finalize proposed changes to Form SF-SAC (the “Data Collection Form”) for the 2013 audit year. The Data Collection Form is an important required part of an audit submission under OMB Circular A-133. The new form changes are designed to assist federal agencies in better searching, extracting and using the audit information.

Additionally, the Federal Audit Clearinghouse has launched a new website for the collection of Circular A-133 audits which will affect how both auditors and entity management submit data to the Clearinghouse.

NASACT conducted a webinar on November 21 to review and discuss the changes. That webinar is available in the bookstore on NASACT’s website at www.nasact.org/bookstore/index.cfm.

DATA Act Sees Some Activity

The Digital Accountability and Transparency Act (DATA Act) was re-introduced in the both the House (H.R. 2061) and the Senate (S. 994) in May. The bill expands the Federal Funding Accountability and Transparency Act of 2006 to increase accountability and transparency in federal spending; it was originally introduced in the 112th Congress but never made it fully through the legislative process.

Unlike the bills introduced in the previous Congress, the legislation does not require expanded “Recovery Act” type reporting for recipients, but it does require federal agencies to undertake expanded disclosure by providing agency expenditures and linking federal contract, loan, and grant spending information to programs of federal agencies.

The House version of the legislation passed out of the House Committee on Oversight and Government Reform shortly after introduction and would:

- Include information about budget authority, obligations, and outlays on the agency, agency component, appropriations account, program, and object class levels (e.g. the nature of the obligation, such as personnel compensation, contracts, acquisition of capital assets, or grants), as well as any transferring of funds and unobligated funding.
- Combine transaction-level obligation information (e.g., contracts signed, grants awarded, loans made) with outlays (the checks that are actually cut).
- Assign universal unique identifiers to contract and grant awards.
- Establish government-wide data standards.
- Continue the Recovery Accountability and Transparency Board by reviewing information from USAspending.gov for completeness, timeliness, quality and accuracy and examining data for indicators of fraud.
- Transfer responsibility for USAspending.gov from OMB to the Treasury Department.
- Institute a pilot program to assess expanded recipient reporting. The language was expanded in committee to allow OMB, at the conclusion of the recipient reporting pilot, to ask the Recovery Board to initiate government-wide reporting for all grants and contracts.

Just this month, the Senate Homeland Security and Government Affairs Committee passed its own amended version of the DATA Act. The Senate legislation, however, is different from the House version in many ways. Specifically the Senate bill:

- Does not continue the work of the Recovery Board or its accountability system that would have used data to detect waste, fraud and abuse.
- Does not transfer authority for USASpending.gov away from OMB. (It does however give some oversight for newly required information to Treasury.)
- Provides a pilot like the House bill but changes the duration and the public availability of the information. In the Senate version there is no provision giving OMB the discretion to apply expanded “Recovery Act” type recipient reporting to all grants and contract at the conclusion of the pilot.
- Lengthens many of the implementation deadlines.

While the House recently passed its version of the bill under suspension, the full Senate has yet to bring the legislation to the floor for a vote. It is likely that House and Senate leaders will have to appoint a conference committee to reconcile the differences should the Senate pass its own version.

NASACT’s Views on the DATA Act

NASACT has written several letters on past versions of the DATA Act. To view those letters, visit www.nasact.org/nasact/positions/congressional.cfm. NASACT’s congressional and regulatory comments on a number of issues can also be found at this web address. Questions about the DATA Act and other Washington-related issues may be directed to NASACT’s Washington office at (202) 624-5451.
GRANT Act Passes House Oversight and Government Reform Committee, Content Similar to OMB’s Grant Reform Initiative

On October 23, Rep. James Lankford (R-OK) introduced legislation establishing new standards for awarding federal grants. The legislation, entitled the Grant Reform and New Transparency Act of 2013 (H.R. 316 or “the GRANT Act”), would require agencies to use merit-based selection procedures in awarding grants and undertake an evaluation of prospective grantees to determine whether the grantee can successfully carry out a grant. The House Committee on Oversight and Government Affairs passed the bill on November 6.

The legislation, if passed into law, would require:

- Merit based selection procedures when awarding federal awards including a clear statement of purpose, duration and eligibility requirements of the grant and a description of how applications of proposals are evaluated and ranked.
- Sixty-day notification of grant opportunities before they become available.
- The U.S. Office of Management and Budget to submit a plan to improve the single audit process for auditing the financial statements and federal awards of a non-federal entity including a proposal to shorten the single audit cycle.
- The director of OMB to upgrade any existing website or proposed public website for finding and applying for federal grant opportunities.
- Agencies to provide the information required to be included in the public grant website, including grant funds availability and grant award information.
- Agencies to explain to grant applicants the basis for award decisions involving grants exceeding $100,000.
- OMB to issue guidance to agencies regarding the identification of amounts of undisbursed grant funds.
- The U.S. Government Accountability Office to issue a report on the federal grants workforce.

There is currently no companion measure in the Senate and ultimate passage of the bill at this time seems unlikely.

NASACT Seeks a Host State for the 2016 Annual Conference

NASACT’s annual conference is held each August. NASACT’s president has the right of first refusal to host the conference during his or her year of presidency. Should the president choose not to host in his/her state, the opportunity will be made available to the general membership. As such, NASACT is currently seeking a host state for the 2016 conference. By agreeing to host the NASACT annual conference, your state will take on responsibility involving commitments of time, energy and resources. By the same token, agreeing to share the unique “flavors” of your state with NASACT conference delegates adds your state to a prestigious group—one that has facilitated the planning of many memorable NASACT conferences in the past. Hosting the NASACT annual conference can be a very rewarding experience!

If you are interested in learning more about hosting the conference, please contact Donna Maloy at dmaloy@nasact.org or (859) 276-1147 by December 31. After that, NASACT’s Time and Place Committee will consider all proposals and make a recommendation to the Executive Committee, which will vote on a final location at its next scheduled meeting in March.
New at www.nasact.org

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

- NSAA technical inquiries on the following topic at www.nasact.org/nsaa/technical/index.cfm (members only content):
  - Performance Audit or Other Report on Special Education Funds
  - Performance Audit of Career and Vocational Education
  - Audit of State Unemployment Insurance Program
  - Inquiries Regarding Fraud Risks

- NASC technical inquiry on the following topics at www.nasact.org/nasc/technical/index.cfm (members only content):
  - Budgeting Software

- Link to an amended version of the DATA Act passed by the Senate Homeland Security and Government Affairs Committee at www.nasact.org (under What’s New).


2014 NASACT Committees Named

Strategic Committees
Training and Professional Development
Chair: James B. Lewis (NM)
Committee on Accounting, Reporting & Auditing (CARA)
Co-Chairs: Alan Skelton (GA) and Randy Roberts (AZ)
Financial Management & Intergovernmental Affairs (FMIAC)
Chair: David H. Lillard, Jr. (TN)
Membership
Chair: Anna Maria Kiehl (PA)

Administrative Committees
Audit
Chair: Pola Buckley (ME)
Budget
Chair: Debra K. Davenport (AZ)
Constitution and Bylaws
Chair: David H. Lillard, Jr. (TN)
Nominating
Chair: Martin J. Benison (MA)
 Personnel
Chair: James B. Lewis (NM)
Resolutions
Chair: Roger Norman (AR)
Strategic Planning
Chair: William G. Holland (IL)
Time and Place
Chair: Calvin McKelvogue (IA)

For more information on the committees, visit www.nasact.org/nasact/committees/index.cfm.

Upcoming Information Sharing Calls

January 2014
- NSAA Pension Audit Issues Task Force – January 9
- NSAA HR Information Sharing Group – January 29

February 2014
- NASC Payroll Information Sharing Group – February 12
- NSAA Pension Audit Issues Task Force – February 13
- NASC Travel and P-Card Information Sharing Group – February 19

Get Involved!
For information on participating in any of these calls, contact NASACT’s headquarters office at (859) 276-1147.
Alan Skelton Testifies at GASB Hearing on Behalf of NASACT

By Kim O’Ryan, CPA, NASC Association Director

On September 30, 2013, NASACT provided responses to the following documents from the Governmental Accounting Standards Board:

- The exposure draft Measurement of Elements of Financial Statements.
- The preliminary views document Fair Value Measurement and Application.

On November 1, during a GASB public hearing, Alan Skelton, Georgia’s state accounting officer, provided testimony on behalf of the association on these documents. Mr. Skelton is co-chair of NASACT’s Committee on Accounting, Reporting and Auditing and chair of the National Association of State Comptroller’s Committee on Accounting and Financial Reporting.

General comments from NASACT’s letters on each document are excerpted below. The two comments letters can be viewed in full at www.nasact.org/nasact/positions/GASB.cfm.

Measurement of Elements of Financial Statements

NASACT supports the need for a concepts statement addressing measurement approaches and measurement attributes that would be considered by the GASB when developing standards for measurement of elements of financial statements. However, the Association provided specific comments that we believe should be taken into consideration by the Board.

The ED indicates that concerns regarding the potential effect of remeasurement on the timeliness of financial reporting generally can be addressed through sufficient planning. While NASACT agrees that advance planning when remeasuring an asset or liability as of the fiscal year end can help alleviate delays in calculating a remeasured amount, we would like to note that the “sufficient planning” comment is not necessarily a solution to the ability to provide timely information because the remeasurement date is the fiscal year end.

NASACT believes the assertion regarding remeasurement amounts providing greater comparability than initial amounts for information reported in the statement of financial position fails to identify the complexity and potential variations of the remeasurement methods, which may reduce comparability. Further, NASACT believes that some remeasurement methods could result in manipulation of amounts.

The ED states “For nonfinancial assets, the price should represent the value of the asset at its highest and best use as determined by market participants.” The term “highest and best use” could potentially lead to overstating assets on the financial statements. Further, it can be difficult to calculate the fair value of an asset that is currently owned by a government because governments are not in the business of re-selling their assets. Therefore, there are not always comparable transactions in the market. Accordingly, NASACT believes the final statement should provide enhanced discussion of the term highest and best use and its application.

Fair Value Measurement and Application

NASACT generally agrees with the Board’s views on the measurement and application of fair value and related disclosures. The proposed changes in the PV will increase consistency and comparability in government’s fair value measurement and related disclosures. NASACT responded to the five specific questions in the PV:

- Q1. While NASACT agrees with the new definition of fair value, we request that the Board provide clarification on the meaning of the term “measurement date” along with the definition of fair value.
- Q2. NASACT agrees that transaction costs should be reported as an expenditure or expense in the period an investment is sold. We further agree that the costs are entity-specific rather than market-based and, as such, should not be included in fair-value measurement.
- Q3. NASACT agrees with the Board’s proposed definition of an investment. It is consistent with the definition of an asset. However, we suggest the Board also include an example of the situation described in Chapter 3, paragraph 4.
- Q4. NASACT agrees and believes the consistent use of fair value would provide a more accurate snapshot of the investment value as of the measurement date. The fair value approach would report gains and losses as they occur through the life of the investment. This would aid financial statement users in their ability to compare the value of investments from one year to the next and to other investments held by the entity.
- Q5. NASACT believes the proposed disclosures are essential to the user’s understanding of the financial position as it shows the reader the method used to calculate the value of the investments. We do not believe any additional disclosures are necessary.

NASACT’s response also includes several comments that were not directly addressed in the questions for respondents for the Board to consider as it moves forward with this project.

More Information

Questions about NASACT’s response letters to recent GASB due process documents may be directed to Kim O’Ryan (koryan@nasact.org) or Sherri Rowland (srowland@nasact.org); both may also be reached at (859) 276-1147.

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NASACT’s responses to GASB and other standards-setting bodies can be found at www.nasact.org.
GAAP Hierarchy

The Board discussed the staff analysis of the remaining half of the questions and answers (Q&As) in Chapter 7 of the Comprehensive Implementation Guide on an individual Q&A basis. Chapter 7 addresses basic financial statements and management’s discussion and analysis. The Board tentatively agreed not to object to the staff recommendations regarding the items reviewed in Chapter 7, subject to the agreed-upon clarifications and revisions.

Next, the Board discussed the staff analysis of the first half of the Q&As in Chapter 8 on an individual Q&A basis. Chapter 8 addresses employer and plan accounting and reporting for OPEB benefits. The Board tentatively agreed not to object to the staff recommendations regarding the items reviewed in Chapter 8, subject to clarifications and revisions agreed to at the teleconference.

In considering issues related to the effective date and transition provisions for the proposed exposure draft titled The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, and the effective date and transition provisions for the proposed Comprehensive Implementation Guide, the Board tentatively agreed the proposed statement and the proposed Comprehensive Implementation Guide would be effective for periods beginning after June 15, 2015, with early application permitted.

The Board continued its discussion by reviewing a preliminary draft of the proposed statement and tentatively agreeing upon clarifying edits. The Board then directed the project staff to prepare a preballot draft of the proposed statement for consideration at the December meeting.

In addition, the Board discussed the staff analysis of the remaining portion of Q&As in Chapter 8 on an individual Q&A basis. The Board tentatively did not object to proposing the staff recommendations regarding the items reviewed, subject to clarifications and revisions agreed to at the meeting.

Leases

The Board discussed issues associated with lease classifications and lease terms that drive the accounting treatment of leases. After discussing characteristics of various types of leases, the Board tentatively agreed that a single accounting model could be developed with potential exceptions for certain circumstances.

The Board then discussed elements relevant to the duration of a lease, including the definition of a lease term, how to account for fiscal funding clauses, and the reassessment of a lease term. The Board tentatively agreed that the lease term should start with the noncancellable period. The Board also tentatively agreed that the lease term should include the periods covered by renewal options that are probable of being exercised based on an assessment of qualitative factors. In addition, the Board tentatively agreed to include in the noncancellable period of the lease term periods covered by fiscal funding and cancellation clauses with a remote possibility of cancellation. Leases that contain a fiscal funding or cancellation clause with a more than
remote possibility of cancellation should be treated as having a termination option.

The Board also tentatively agreed that the lease term should be reevaluated when there is a change in relevant factors that would result in a change in judgment as to the lessee’s likelihood to exercise or terminate the lease, or when the lessee actually exercises or terminates the lease opposite of what was previously expected.

Next, the Board discussed lessee recognition and measurement, including the foundation for recognition and measurement, and lessee recognition of assets and liabilities. The Board also began discussions on the lessee initial measurement of liabilities. The Board tentatively agreed that the major criticisms of current lease accounting—opportunities for structuring around a bright-line classification test and omission of a perceived liability—are items that the Leases project should attempt to address. The Board also recognized that the proposed accounting model for leases may have differences from the private sector as a result of factors found in the state and local government environment. The Board tentatively agreed that the model should attempt to measure resources available to provide services, and obligations to sacrifice such resources, with consideration given to the characterization of expenses. The Board also discussed whether leases are executory contracts but did not reach a tentative decision. The Board tentatively agreed to propose that the notion of leases as financings be the foundation for the governmental leasing model.

Continuing deliberations by discussing recognition of assets and liabilities for lessees, the Board tentatively agreed to propose that the right to use the underlying asset be recognized as an asset by the lessee and that the obligation to make lease payments be recognized as a liability by the lessee. The Board further tentatively decided to propose that the obligation to return the underlying asset at the end of the lease not be recognized as a liability by the lessees; it also should not be recognized as a deferred inflow of resources or an outflow of resources.

In discussing potential exceptions to the overall lease model, the Board tentatively agreed to propose that exceptions be made for short-term leases, under which the lessee government is not required to recognize assets or liabilities. The Board tentatively agreed to propose that a short-term lease be defined as a lease that, at the beginning of the lease, has a maximum possible term under the contract, including any options to extend, of 12 months or less. The Board tentatively agreed to propose that the presence of a purchase option not affect the definition of a short-term lease. However, the Board also tentatively decided to propose that leases that transfer ownership not qualify for the short-term lease exception, even if those leases meet the other criteria. Furthermore, the Board tentatively agreed to propose that it not be necessary to make an exception for leases that transfer ownership of underlying assets.

Next, the Board discussed the overall approach to the measurement of lease assets and liabilities for lessees and tentatively agreed to propose that the general approach to measuring lease assets and liabilities be to measure the liabilities first and base the assets on that amount. The Board also tentatively agreed to propose that the general measurement approach for a lease liability be based on the present value of future payments.

The Board also discussed the lessee measurement of lease liabilities and the types of payments that should be included and tentatively agreed to propose that the following types of lease payments be included in the measurement of the initial lease liability:

- Fixed payments for the lease term.
- Variable payments based on an index or rate.
- Variable payments that are in-substance fixed.

Other Postemployment Benefits

The Board discussed issues related to projecting other postemployment benefits (OPEB) in the measurement of an OPEB liability by an employer that provides those benefits through a community-rated plan and tentatively agreed to propose to allow such employers to use unadjusted premiums to project benefits under certain conditions.

The Board tentatively agreed to propose that a legal or contractual cap on an employer’s share of the benefits to be provided to plan members be considered in the projection of benefits in the measurement of an employer’s total OPEB liability if the cap is assumed to be effective, taking into consideration the employer’s record of enforcing the cap in the past and other relevant factors and circumstances. The Board also tentatively agreed to propose that a cap on an employer’s contributions to an OPEB plan not be considered in the projection of benefits in the measurement of an employer’s total OPEB liability.

In addition, the Board tentatively agreed to propose that benefits to be provided by allocated insurance contracts be excluded from the projection of benefits in the measurement of an employer’s total OPEB liability when all required payments to acquire the contracts have been made, the responsibility for providing the benefits irrevocably has been transferred to the insurer, and the likelihood is remote that the employer will be required to make future payments to satisfy the benefit payments covered by the contract.

The Board next discussed recognition of payables to an OPEB plan and tentatively agreed to propose that an employer recognize payables to an OPEB plan as a liability separate from the employer’s net OPEB liability that are legally or contractually required.

The Board also tentatively agreed to propose that a primary government and its component units, both blended and discretely presented, be classified as one employer for plan classification purposes and that, for stand-alone financial reports, the requirements of cost-sharing employers for recognition and measurement of a net OPEB liability be applied by both the primary government and its component units, blended and discretely presented.

In discussing information related to OPEB that employers should be required to include as disclosures in notes to basic
financial statements, the Board tentatively agreed to propose that note disclosures be provided for each individual defined benefit OPEB plan in which the employer participates as of the measurement date, unless otherwise noted. In addition, the Board tentatively agreed to propose that disclosures related to more than one OPEB plan may be combined in a manner that avoids unnecessary duplication. Also, the Board tentatively agreed that in circumstances in which the employees of both the primary government and its component units are provided with OPEB through the same single or agent employer plan, a reporting entity should separately identify amounts associated with the primary government and those associated with its discretely presented component units in the notes to financial statements.

The Board tentatively agreed to propose that the basic note disclosure requirements for pensions in Statement 68, Accounting and Financial Reporting for Pensions, be applied for OPEB. These disclosures generally expand upon the descriptive information about each OPEB plan in which the employer participates. In addition, these disclosures require that additional information be disclosed for all employers on the amounts recognized in the financial statements such as information related to deferred outflows of resources and deferred inflows of resources related to OPEB and information related to the OPEB plan’s fiduciary net position.

The Board also tentatively agreed to propose the following note disclosures on issues generally unique to OPEB:

- Legal or maximum contribution rates for OPEB.
- The healthcare cost trend rate used in the calculation of the total OPEB liability.
- The net OPEB liability measured using a healthcare cost trend rate one percentage point higher and one percentage point lower than used in the measurement of the net OPEB liability.

The Board tentatively agreed to propose that the required supplementary information requirements for pensions in Statement 68 also be applied for OPEB.

Continuing discussions related to the use of an alternative measurement method for calculating an employer’s OPEB liability for small employers, the Board tentatively agreed to propose that in using the alternative measurement method to measure OPEB liabilities, the expected point in time at which benefits will be provided should reflect past experience and future expectations for the covered group. The Board also tentatively agreed to propose that the expected point in time in which benefits will be provided be a single assumed retirement age for all active employees or an assumption that all active employees will retire upon attaining a certain number of years of service.

Next, the Board tentatively agreed to propose that historical age-based turnover experience of the covered group be used to determine turnover assumptions in the alternative measurement method. The Board also tentatively agreed to propose that, if such experience data is not available to determine turnover assumptions, the alternative measurement method should utilize default tables to determine turnover assumptions.

The Board tentatively agreed to propose that the expected future working lifetime of plan members be the difference between the employee’s current age and the employee’s assumed retirement age for purposes of allocating the present value of expected benefits to periods. In addition, the Board tentatively agreed to propose that the alternative measurement method utilize default factors for calculating age-adjusted premiums when active employees and retirees are charged the same premiums and the employer is unable to obtain age-adjusted premium information for retirees from the insurer.

In considering the coordination of the tentative decisions made to date in the OPEB project with other accounting and financial reporting standards related to employee benefits, the Board tentatively decided that existing guidance in Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, as amended, related to accounting and financial reporting for insurance and risk financing should continue to exclude OPEB.

The Board also discussed issues related to accounting and financial reporting of plans that administer defined benefit OPEB in trusts. The Board tentatively agreed to propose the same provisions for recognition and measurement in financial statements, note disclosures, and required supplementary information as defined benefit pension plans in Statement 67, Financial Reporting for Pension Plans, with the following additional note disclosures:

- Sharing of costs between the employer and benefit recipients based on terms or policies or sharing of costs based on a historical pattern.
- Measures of the OPEB plan’s net OPEB liability resulting from a one percentage point increase and a one percentage point decrease in the discount rate.

The Board also considered issues related to accounting and financial reporting for OPEB arrangements that are not administered as trusts. The Board tentatively agreed to propose that funds used to accumulate assets and pay OPEB for multiple employers be reported as agency funds with assets and liabilities recognized in the same manner as assets and liabilities held by defined benefit OPEB plans administered as trusts. The Board also tentatively decided to propose that assets held in excess of liabilities in these circumstances be offset by liabilities to participating employers.

The Board tentatively agreed to propose that the notes to the financial statements for multiple-employer OPEB arrangements that do not meet the criteria to be reported as a trust include the following:

- Disclosure of the number of participating employers and nonemployer contributing entities.
- A description of how the fair value of investments is determined.
- Authority under which obligations of the plan members, employers, and other contributing entities to contribute are established or amended.
California Controller John Chiang Secures Court Order Mandating Compliance with Unclaimed Property Audit

A recent development in California Controller John Chiang’s lawsuit against American National Insurance Company (ANICO) could have far-reaching implications for state unclaimed property programs. As part of efforts to enforce states’ rights to investigate and recover unclaimed life insurance proceeds for beneficiaries or, if a beneficiary cannot be found, for the state, Controller Chiang has commenced lawsuits against three life insurance companies that have not complied with unclaimed property audits. Controller Chiang has asked the California Superior Court in Sacramento to issue injunctions ordering these companies to comply with the audit and provide all information requested by the auditors conducting the examinations. In its defense, ANICO challenged the scope and manner of the audit, arguing that the controller is not entitled to examine life insurance and annuity policies that the company has itself determined are “in-force” and thus not within the purview of unclaimed property law.

On October 9, the California court issued a forceful order granting the controller’s request for a preliminary injunction and rejecting ANICO’s arguments. According to the court, “California’s auditor does not, and need not, accept ANICO’s word that it has, on its own, correctly identified and segregated its own ‘in-force policies.’” In support of its decision, the court explained that “the very purpose of the audit is to verify” the information contained in the company’s records and the company’s representations regarding its compliance with applicable law.

The ANICO decision should signal to the life insurance industry that a proper examination cannot be circumvented by lodging similar objections to the manner or scope of the audit. Further strengthening that signal is the fact that this decision comes on the heels of another order whereby the court dismissed all but one of ANICO’s counterclaims challenging the controller’s authority under California’s unclaimed property laws.

Marc Cohen and Steven Rosenthal of Kaye Scholer, the law firm representing Controller Chiang in this and related disputes, described the ANICO decision as “a major success, not only for Controller Chiang, but for state treasurers and controllers administering unclaimed property programs across the country.”

Controller Chiang, Mr. Cohen and Mr. Rosenthal presented at NASACT’s 2013 Annual Conference in Boston, where they sat on a panel discussing developments and issues related to unclaimed life insurance audits, settlements and litigation. (The presentation is available at www.nasact.org.)

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This article was prepared by Kaye Scholer LLP, a member of NASACT’s Corporate Associates Program. To find out more about the Corporate Associates Program, visit www.nasact.org/nasact/corporate/index.cfm.

Update From GASB (continued from previous page)

- Description of how the contributions of plan members, employers, and nonemployer contributing entities are determined and how the costs of administering the plan are financed.
- Required contribution rate(s) of active or retired plan members, as applicable, expressed as a rate (amount) per member or as a percentage of covered payroll.
- Description of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date.

The Board also discussed issues related to accounting and financial reporting of pension arrangements that are not administered as trusts. The Board tentatively agreed to propose that the tentative decisions in relation to accounting and financial reporting for OPEB arrangements not administered as trusts be applied to pension arrangements not administered as trusts.

Pension Transition

The Board discussed comments received from respondents to the exposure draft Pension Transition for Contributions Made Subsequent to the Measurement Date and tentatively agreed to make a clarifying edit to the “Basis for Conclusions” as suggested in the comment letters.

Next, the Board reviewed a preballot draft of a final statement, Pension Transition for Contributions Made Subsequent to the Measurement Date, and provided clarifying changes. ■

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The GASB Update is provided on a bi-monthly basis by staff from the GASB.
Paul Joyce Appointed as State Examiner in Indiana

Indiana Gov. Mike Pence has appointed Paul Joyce as the state examiner for the Indiana State Board of Accounts. Mr. Joyce will serve a four-year term effective November 8, 2013. He previously held the position of deputy state examiner and will succeed Bruce Hartman, who is retiring.

As state examiner Mr. Joyce will coordinate and manage the audits and examinations of over 4,100 state and local governmental entities in Indiana. He brings over 22 years of experience to the position of state examiner with an extensive background in public service and auditing. He advocates accountability and transparency in government and believes that public service is an obligation and an opportunity for us to work together to make our government more transparent and accountable.

New Mexico State Treasurer’s Office Mourns the Loss of a Special Employee

The New Mexico State Treasurer’s Office mourns the passing of Mr. Alfredo Santistevan. Mr. Santistevan passed away unexpectedly on Monday, October 14, 2013. He was the Special Assistant to Treasurer James Lewis and he often attended meetings of national organizations. Treasurer Lewis, Mr. Santistevan, and another employee had just attended the NAST conference in North Carolina. Mr. Santistevan usually contacted staff from various organizations to schedule Mr. Lewis’s travel arrangements.

Mr. Santistevan was always in good humor. He enjoyed life and tried to share that joy with others. His email signature was followed by the words “Shalom, Be the Light,” a testament to his character. The Treasurer’s Office will greatly miss his infectious laughter, humor and the work that he did on behalf of the Treasurer’s Office.

Mr. Santistevan is survived by his wife, daughter, grandchildren, parents and many relatives and friends.

Ms. Marilyn L. Hill, Deputy Treasurer, will be the contact for the New Mexico State Treasurer’s Office. She can be reached by email at marilyn.hill@state.nm.us or by telephone at (505) 955-1120.

Do You Have an Idea for a NASACT Webinar?

If so, let us know about it! Email webinar topics to Kinney Poynter at kpoynter@nasact.org. In 2013, NASACT has hosted webinars on the following topics (recordings can be found in NASACT’s bookstore at www.nasact.org):

- February 14: Group Audits: Case Studies
- March 6: GASB’s Pension Accounting and Financial Reporting Standards: A Focus on Statement No. 68
- March 27: OMB Grant Reforms
- July 10: GASB Review
- August 7: The Pension Challenge: Critical Issues to Implementing the New GASB Pension Standards
- September 18: Treasury Offset Program: How Federal and State Partnerships Can Cost Effectively Maximize Debt Recoveries
- October 23: What Does It Take for State Government to Consistently Deliver High Performance?
- November 6: High Impact Audits and Reports: NSAA’s 2013 Excellence in Accountability Award Winners
- November 21: The New A-133 Data Collection Form (SF-SAC) and the Revised Federal Audit Clearinghouse System
Mark Your Calendar for Upcoming NASACT Annual Conferences

By Donna Maloy, Conference Manager

The 2013 NASACT Annual Conference was held in Boston, Massachusetts, this past August. The conference was a huge success! With almost record attendance, registrants attended a variety of technical sessions and many networking opportunities with their peers. The conference attendees also enjoyed a number of social events including a dinner at Fenway Park–home of the current World Series Champion Red Sox!

2014 NASACT Annual Conference

The 2014 conference will be hosted by James B. Lewis, state treasurer of New Mexico and current NASACT president. He will be joined by his co-hosts Hector Balderas, state auditor, and Ricky Bejarano, state controller. The conference will be held August 9-13, 2014, at the El Dorado Hotel in downtown Santa Fe, New Mexico. The Training and Professional Development Committee will begin shortly after the new year to develop the technical program for the event.

2015 NASACT Annual Conference

The 2015 conference will be NASACT’s 100th anniversary. This conference will be hosted by William G. Holland, auditor general of Illinois and NASACT’s current first vice president. He will be joined by his Illinois co-hosts Judy Baar Topinka, state comptroller and Dan Rutherford, state treasurer. The conference will be held August 22-26, 2015, at the Marriott Hotel located on Michigan Avenue in the heart of downtown Chicago.

Travel Assistance for Members

Last year the Executive Committee expanded the NASACT Travel Assistance Program to offer up to $2,000 for each member office to be used for the principal and/or the principal member’s designee to attend the annual conference. This benefit is available for all members in good standing and goes into effect for the 2014 conference. We hope this will enable you to either attend the annual conference or to bring your deputy or additional staff to the conference. All travel assistance will be made available following the conference as a reimbursement.

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