# PRE-AGENDA RESEARCH ACTIVITIES, MONITORING ACTIVITIES, POTENTIAL STANDARDS-SETTING TOPICS, AND POTENTIAL REEXAMINATION TOPICS

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# Pre-Agenda Research

**Debt Disclosures, including Direct Borrowing—Reexamination of Statements 34, 38, and 62**
**First-Third 2016 Technical Plan**

Research Description: The objective of this research is to evaluate whether the currently required notes to the financial statements are sufficiently meeting the need for debt information for making decisions and assessing accountability. The research will provide the Board with the information it requires to consider the need for new standards or revisions to existing standards and, if that need exists, to develop new or revised accounting and financial reporting standards.

Background: Existing guidance for notes to the financial statements requires two general disclosures for outstanding debt:

- Changes in the amount of outstanding debt during the reporting period, as part of the overall disclosure of changes in long-term liabilities (paragraph 119 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*)
- Debt service requirements for each of the succeeding five fiscal years and in five year increments thereafter until maturity (paragraph 10 of Statement No. 38, *Certain Financial Statement Note Disclosures*).

Additional note disclosures required for certain debt-related transactions, include:

- Changes in short-term debt during the reporting period (paragraph 12 of Statement 38)
- Short-term obligations (paragraph 44 of Statement 62, as amended).

The notes to the financial statements of a typical general purpose government with outstanding municipal bonds also are likely to contain a variety of other debt-related information such as original amounts, outstanding amounts, issuance dates, and final maturities of individual issuances of general obligation bonds, tax-backed bonds, and revenue bonds. This information is not required by GASB standards; governments may be presenting it under the general rubric to "provide necessary disclosure of material items, the omission of which would cause the financial statements to be misleading"

(NCGA Interpretation 6, *Notes to the Financial Statements*) or as part of their continuing disclosure under SEC Rule 15c2-12.

In the period since the existing standards for debt disclosures were issued, governments have continued to innovate and diversify with respect to their debt-issuance practices. In recent years, governmental borrowers have increasingly satisfied their financing needs by using direct loans from banks rather than issuing municipal bonds. Financial statement users—particular credit ratings agencies, industry groups, and bond market regulators—have expressed concerns about this practice. Their concerns have centered upon governments that have either (1) provided inadequate or no disclosure regarding their direct borrowing arrangements, or (2) inappropriately classified direct loans as other types of debt in their financial statements.

In the course of conducting outreach regarding direct borrowing, the GASB has heard concerns from a variety of stakeholders and stakeholder groups not only about the reporting by governments of direct loans but about the quality of debt-related disclosures in general. In particular, users expressed concern about the absence of disclosure regarding provisions of debt agreements that expose governments to financial risk, such as accelerated repayment if covenants are breached. Such provisions may have significant liquidity implications for a government and this information is important to the decision-making of current and future investors in the government's debt.

<u>Major Research Issues</u>: The major issues to be studied are:

- What transactions constitute "debt" for financial reporting purposes and, therefore, would be subject to debt-related disclosures?
- What information about a government's outstanding debt is essential to users? Is that information currently available to users from the notes to the financial statements or other sources?
- What specific user needs exist regarding covenants (such as acceleration or subordination clauses) in debt transactions?

The focus of the proposed research is on disclosures related to debt in general. The research generally does not encompass disclosures related to specific types of debt transactions that are the subject of other projects, research, or potential topics.

Current Developments: Interviews with preparers and auditors began in December 2015 and concluded in February 2016. In addition, a user survey was developed in February 2016 and interviews are scheduled to be completed in March 2016.

History:

- Pre-agenda research approved: April 2015

Research Work Plan: The plan for the pre-agenda research includes the following activities:

| *Board Meetings* | *Research Activities* |
|---|---|
| March 2016: | Conclude analysis of results of research and draft research memorandum. |
| April 2016: | Review results of research. |

# Going Concern Disclosures—Reexamination of Statement 56
## First-Third 2016 Technical Plan

Research Description: The objective of this research is to evaluate whether the existing GASB authoritative literature has provided preparers of financial statements for state and local governments sufficient guidance about management's responsibilities for evaluating and disclosing uncertainties associated with severe financial stress (what is now referred to as "going concern" uncertainties). The research will provide the Board with the information it requires to consider the need for revisions to existing disclosure standards, which would be intended to reduce existing diversity in note disclosures and to more effectively meet financial statement user needs.

Background: GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, incorporated accounting and financial reporting guidance on three issues—related party transactions, subsequent events, and going concern considerations—presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards (SAS) into the GASB authoritative literature. The going concern guidance was found in U.S. Auditing Standards (AU) Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

The note disclosure requirements related to going concern were incorporated into the GASB's literature basically "as is." That guidance was issued by the AICPA in 1988.

The Board discussed issues associated with inconsistencies found in practice in the application of going concern guidance with the AICPA's State and Local Government Expert Panel. Moreover, the Board discussed with the AICPA's Audit Issues Task Force (AITF) whether there is a gap between what financial statement users discern from going concern disclosures (for example, a conclusion that the government will cease to exist as a legal entity) and the actual information needed by those users (that is, for the disclosures to identify severe financial stress). At the latter meeting, members of the AITF expressed interest in working with the GASB to address how to close this gap.

In June 2014, the GASB awarded a Gil Crain Memorial Research Grant to fund research on the experience with auditors issuing going concern opinions on state and local governments. Additionally, in September 2015, the GASB awarded a Crain research grant to fund research on government dissolutions. The results of the Crain research would supplement the research activities that would be conducted by the GASB staff.

Major Research Issues: The research would consider the relevance of the existing going concern standards to state and local governments. Specifically, the research would address the following issues:

- Are the current going concern indicators presented in note disclosures appropriate for state and local governments, in light of the fact that, even under severe financial stress, few governments cease to operate even when encountering such indicators?
- What other criteria might better achieve the objective of disclosing severe financial stress uncertainties with respect to governments?
- What information do financial statement users need with respect to the disclosure of severe financial stress uncertainties?

Current Developments: Staff continue to review relevant literature and compile a comprehensive listing of state monitoring programs. A protocol for interviews of monitoring program officials was developed in November and December 2015 and interviews commenced in December 2015 and continued through February 2016.

The GASB also received the research memorandum from a Gil Crain Memorial Research Grant, specifically related to this topic, in August 2015. Additionally, in September 2015, the GASB awarded another Crain Grant to fund research on government dissolutions.

History:

- Pre-agenda research approved: April 2015

Research Work Plan: The plan for the pre-agenda research includes the following activities:

| *Board Meetings* | *Research Activities* |
|---|---|
| March–April 2016: | Develop and pretest user survey instrument. |
| May–June 2016: | Conduct user survey. |
| July–August 2016: | Develop research methodology for evaluating financial stress measures. |
| September–December 2016: | Conduct evaluation of financial stress measures. |
| January–February 2017: | Hold consultative group meeting; conclude analysis of results of research and draft research memorandum. |
| March 2017: | Review results of research. |

# Revenue Recognition for Exchange and Exchange-Like Transactions—Reexamination of Specific Statement 62 Provisions
## First-Third 2016 Technical Plan

Research Description: The initial objective of this pre-agenda research is to evaluate the effectiveness of existing standards related to revenue recognition for exchange and exchange-like transactions. In particular, the research will consider whether the current guidance regarding revenue recognition for exchange transactions is sufficient to minimize diversity in practice and to determine if there is an opportunity to harmonize revenue recognition for exchange and exchange-like transactions with the recently issued FASB *Accounting Standards Codification®* (ASC) Topic 606, *Revenue from Contracts with Customers,* and standards that will result from the International Public Sector Accounting Standards Board's project on revenue recognition. Furthermore, this research will consider whether the information presented in financial statements for revenue from exchange and exchange-like transactions meets user needs for making decisions and assessing accountability. The research will provide the Board with the information it requires to consider the need for new accounting and financial reporting standards and, if that need exists, to develop new or revised standards.

Background: In May 2014, FASB Topic 606 (a joint effort with the IASB) introduced a major overhaul of FASB guidance for revenue recognition for exchange transactions. This comprehensive approach eliminated the previous guidance, which comprised broad revenue recognition concepts, along with numerous revenue requirements for particular industries or transactions. The prior standards frequently resulted in diversity in practice. These major changes in the FASB standards offers an opportunity to consider anew the GASB's standards, similar to the efforts on the standards for leases.

GASB standards provide ample guidance for revenue recognition for nonexchange transactions in Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. That guidance was the subject of Post-Implementation Review by the Financial Accounting Foundation completed in November 2015.

However, GASB standards provide limited guidance for exchange and exchange-like transactions:

- Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*), paragraph 16, directs governments to recognize revenue for exchange and exchange-like transactions when the exchange takes place.
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 23, directs government to recognize revenue from exchange transactions when the exchange is effected. Furthermore, in paragraphs 24–28, Statement 62 provides revenue recognition guidance for exchange transactions when a right of return exists. However, the guidance for revenue recognition when the right of return exists is applicable only to business-type activities and proprietary funds.
- Further specialized guidance exists for other specific issues. For example Statement 62 addresses sales of real estate (paragraphs 285–349) including guidance for the use of specific revenue recognition methodologies such as installment, cost recovery, deposit, and reduced gain methods. Statement 62 also addresses research and development arrangements, broadcaster license agreements, and cable television systems.

The guidance brought into the GASB literature through Statement 62 derives in part from guidance that has not been revised for decades: Accounting Research Bulletin 43, Chapter 1A, *Rules Adopted by Membership*, as amended by paragraph 12 of Accounting Principles Board Opinion No. 10, *Omnibus Opinion—1966*.

<u>Major Research Issues</u>: The major issues to be studied are:

- What issues have arisen in practice with regard to recognition of exchange and exchange-like revenues by state and local governments?
- What transactions constitute exchange-like revenue? Specifically, can criteria be developed as a means of differentiating exchange-like transactions from nonexchange transactions for revenue recognition purposes?

- What types of revenue transactions having single-elements do governments generally engage in for exchange and exchange-like arrangements, and how do governments account for them?
- What types of revenue transactions having multiple-elements do governments generally engage in for exchange and exchange-like arrangements, and how do governments account for them?
- Do governments generally engage in exchange and exchange-like transactions such as those specifically addressed in FASB Topic 606, such as unexercised rights, warranty options, bill-and-hold arrangements, customer options, variable consideration, stand-ready obligations, discount allocations, and sales with financing (other than leases)?
- How prevalent are sales with a right of return in the governmental environment? Should paragraphs 26–27 of Statement 62 be applicable to all governments?
- What specific user needs exist regarding revenue recognition for exchange and exchange-like revenue?

Current Developments: Staff has conducted a review of the revenue recognition guidance of other standards setters, including FASB Topic 606 and the ongoing project of the IPSASB. Details of the IPSASB project are presented in the Nonexchange Transaction entry. Separate surveys of preparers, auditors, and users were conducted in January and February 2016.

History:

- Pre-agenda research approved: September 2015

Research Work Plan: The plan for the pre-agenda research includes the following activities:

| *Board Meetings* | *Research Activities* |
|---|---|
| March 2016: | Review results of research. |

# Monitoring Activities

## Electronic Financial Reporting
## First-Third 2016 Technical Plan

Description of Monitoring Activities: The objective of this activity is to monitor the effect of the electronic media on information delivery and user needs. Monitoring and support of research into the evolving state of the art in electronic financial reporting by state and local governments will provide the Board with a basis for evaluating the need to develop standards for financial reports intended for this medium.

Background: During the development of the Board's initial strategic plan in 1997, and the succeeding plans in 2004 and 2007, the Board recognized the importance of staying abreast of the rapidly increasing use of electronic media in financial reporting applications. In the strategic plan, the Board acknowledges that it has the responsibility to ensure that its standards provide current and potential users with relevant information. It is that responsibility that led the Board to initiate long-range monitoring of practice to determine how new media will be used by governments to provide electronic alternatives to traditional reports.

In accordance with the strategic plan initiative, the staff has been monitoring developments in the reporting of governmental financial statement information via electronic media. The staff has concentrated on two specific issues:

- The development of Extensible Business Reporting Language (XBRL), a standardized digital language for business financial reporting.
- The growth in governments' use of electronic media to report their financial results in the absence of a standard format like XBRL.

Current Developments: Staff continued to monitor the work of and confer with the academics from Rutgers University and the University of Northern Illinois to provide feedback on their respective research efforts.

Monitoring History:

- Monitoring activities approved: July 2000

Monitoring Plan:

| *Board Meetings* | *Monitoring Activities* |
|---|---|
| March–April 2016: | Staff will continue to monitor the development of XBRL reporting and the discussions with AGA, NASACT, and NASCIO. Staff will provide assistance and advice to the academic teams conducting the research projects, as needed, and to governments, as requested. |

# Potential Standards-Setting Topics

## Accounting for Equity Interests in Component Units—Acquisition When Legal Separation Is Maintained

Objective: The initial objective of this potential topic would be to research whether the substance of an acquisition of an entity that remains legally separate from the acquiring government is significantly different from an acquisition in which legal separation ceases and the acquired organization becomes part of the acquirer's legal entity. If this is not significantly different, another objective would be to consider whether accounting and financial reporting guidance should be modified for acquisitions of an entity that remains legally separate.

Description of the Topic: Statement No. 69, *Government Combinations and Disposals of Government Operations*, provides accounting and financial reporting guidance for mergers and acquisitions of complete entities. The Statement 69 definition of *acquisition* explicitly states that an acquired entity becomes part of the acquiring government's legally separate entity. That definition does not include obtaining an equity interest in another organization that remains legally separate and will be reported as a component unit of the acquiring government. Statement No. 14, *The Financial Reporting Entity*, as amended, provides the requirements for reporting the legally separate organizations that comprise a financial reporting entity. The measurement of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of an acquired entity that becomes part of the primary government under Statement 69 is different from measurement when an acquired entity is reported as a component unit under Statement 14, as amended.

An example may best illustrate the financial reporting implications of the issue. Assume that Government A, a business-type activity, acquires all of the assets and liabilities of Entity B, a not-for-profit organization, in an acquisition transaction. Entity B would cease to exist as a legally separate entity and would become a part of Government A's legally separate entity. That transaction would qualify as a government acquisition under the provisions of Statement 69. For this exercise, assume that Government A determines that the consideration paid exceeds the acquisition values assigned to the assets and liabilities acquired by $225,000. Government A would recognize acquisition values of the assets acquired and liabilities assumed and classify the excess of $225,000 as a deferred outflow of resources based on the requirements of Statement 69.

However, if Entity B will remain as a legally separate entity after it is acquired by Government A, the transaction falls outside the scope of Statement 69 and the financial reporting requirements are provided in Statement 14, as amended, because Government A determines that Entity B qualifies as its component unit. In this instance, based on paragraph 72 of Statement 14, as amended by Statement No. 61, *The Financial Reporting Entity: Omnibus,* Government A's equity interest in Entity B is measured by its share of the component unit's (Entity B's) net resources. There is no requirement for Entity B to remeasure its assets and liabilities at acquisition value or to allocate the acquisition price paid by Government A. Government A (the primary government) in this instance would record an expense to adjust for the difference between the carrying values of the component unit's (Entity B's) assets and liabilities and the amount of consideration paid, assuming Government A provides excess consideration as described in the preceding paragraph.

The following issue would be considered:

- Should the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of a legally separate component unit for which the primary government recognizes an equity interest be measured in the same manner as those elements would be in a government acquisition under Statement 69?

Reasons for Considering Pre-Agenda Research on This Topic: Some respondents to the Exposure Draft leading to Statement 69 commented that it is not unusual for organizations to remain as legally separate entities after they are acquired. Those respondents sought clarification about whether there exists a significant difference between government combinations within the scope of Statement 69 and acquisitions when legal separation is maintained. They generally believe that the substance of the acquisition is the same in both situations. Accordingly, there is some concern that governments will be able to influence the accounting for a transaction based on whether an acquired organization maintains or relinquishes its separate legal identity.

During their February 2013 meeting, the GASAC members ranked the priority of this topic in the top 15 of all research and potential topics, in the top 25 in 2014, and tenth in 2015.

History:

- Added to the potential topics list: April 2013

## Emissions Trading (Carbon Credits)

Objective: The initial objective of this potential topic would be to consider the need to develop specific accounting and financial reporting standards for emissions trading programs that are administered by state and local governments, including carbon credits. If additional guidance is determined to be needed, another objective would be to develop recognition and measurement alternatives and potential disclosures.

Description of the Topic: Emission trading programs, including carbon credits, are becoming increasingly important in the emerging world of carbon markets. Recently, a trading program has been implemented in California with the Greenhouse Gas Mitigation Act (AB32).

In November 2012, the California carbon market was launched. Utilities and businesses paid $10.09 per ton for permits to emit carbon, establishing a market price for valuing carbon storage on natural resource lands and watersheds. This legislation could have widespread implications for the entire United States as significant, new revenue streams could become available nationwide for large-scale reforestation topics as well as urban forestry. In the future, membership growth of the Western Climate Initiative, or other initiatives like regional greenhouse gas initiatives (RGGI), could accelerate funding capacity for state and local governments.

The following issues would be considered:

- When should carbon credits and other emissions trading credits be recognized by governments that administer these programs and governments that hold credits as a result of exchange and nonexchange transactions involving these programs?
- How should these credits be measured by governments that administer these programs or hold credits in exchange and nonexchange transactions as a result of these programs? Should credits held be measured at initial value or a remeasured value?
- What information should be disclosed regarding the recognition and measurement of credits related to these programs?

Reasons for Considering Pre-Agenda Research on This Topic: These programs have been identified in several areas of the country and potentially could significantly expand in the near future. Inquiries have been received regarding the appropriate accounting and financial reporting for programs that are in place and for programs that are currently being considered.

For programs administered by state governments, specific guidance does not identify the point at which the rights associated with these programs meet the definition of an asset or an inflow of resources. Moreover, specific recognition and measurement guidance has not been provided for governments that hold emission trading credits acquired in either an exchange or nonexchange transaction.

This topic was brought to the attention of the GASB through a constituent request that the Board consider standards setting for emission trading transactions. A presentation by experts in emission trading was made to the GASAC at its March 2014 meeting, at which time it ranked the project in the top 15 research and potential topics. It ranked 17th in 2015.

The IPSASB began discussions on its emissions trading schemes research project in June 2015. At this point, it is a joint research project with the IASB. A decision will be made at the IPSASB's March 2016 meeting regarding the project's future development.

History:

- Added to the potential topics list: April 2013

## Exchange and Exchange-Like Financial Guarantees

Objective: The initial objectives of this potential topic would be (1) to evaluate the needs of users related to exchange and exchange-like financial guarantees, (2) consider differences between exchange and nonexchange financial guarantees, and (3) determine if any requirements from the standards on nonexchange financial guarantees should be extended to exchange and exchange-like financial guarantees.

Description of the Topic: When a government extends a financial guarantee, it has agreed to indemnify a third party if the entity that issued the guaranteed obligation does not fulfill its requirements under the obligation. Generally, these types of guarantees are extended by governments as part of their mission to assist other governments, nongovernmental entities, or individuals within the government's jurisdiction. It is to be expected that some issuers of guaranteed obligations will fail to make payments on those obligations and, therefore, a government that extends a guarantee may have an obligation that should be accounted for and reported.

Paragraphs 96–113 of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* contain guidance for recognizing and disclosing loss contingencies. This guidance was incorporated into the GASB literature by Statement 62 from FASB Statement No. 5, *Accounting for Contingencies,* and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss—an interpretation of FASB Statement No. 5.* Statement 62 requires accrual of an estimated loss contingency when it is both *probable* (likely to occur) and can reasonably be estimated. If the loss cannot reasonably be estimated or is only *reasonably possible* (more than remote but less than likely), disclosure is required. These standards are applicable to financial guarantees that are a part of an exchange or exchange-like transaction.

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* was issued in April 2013. Statement 70 created a threshold for recognition of a liability related to a nonexchange financial guarantee—"more likely than not"—that is different from the "probable" threshold in existing literature for exchange and exchange-like financial guarantees. Also, Statement 70 requires disclosures for nonexchange financial guarantees beyond those required by Statement 62 for exchange and exchange-like financial guarantees.

The following issues would be considered:

- What significant differences, if any, exist between nonexchange financial guarantees and exchange or exchange-like financial guarantees? Do these differences justify the application of different accounting and financial reporting standards?
- Specifically, should the more-likely-than-not recognition threshold be applied to exchange and exchange-like financial guarantees? Should the additional disclosure requirements for nonexchange financial guarantees be extended to exchange and exchange-like financial guarantees?

Reasons for Considering Pre-Agenda Research on This Topic: Comment letters received in response to the June 2012 Exposure Draft on nonexchange financial guarantees indicated that some constituents were concerned about differences that would arise between the standards for nonexchange *financial guarantees* and exchange/exchange-like financial guarantees. Some of these respondents stated that the only difference between nonexchange and exchange/exchange-like financial guarantees is the consideration received for providing the guarantee. These respondents generally do not believe that the receipt of consideration should result in a different method to recognize a liability.

The topic was ranked by the GASAC in the top 25 research and potential topics in 2014 and 2015.

History:

- Added to the potential topics list: April 2013

## Financial Transactions with Characteristics of Both Loans and Grants

Objective: The initial objectives of this potential topic would be to (1) research the types of transfers of financial resources that have characteristics of both loans and grants (for example, federal contributions to Perkins Loan programs of colleges and universities), and (2) to consider if guidance on distinguishing between transactions that have characteristics of both loans and grants is warranted. If additional guidance is determined to be needed, another objective would be to consider providing guidance regarding whether these types of transactions should be reported as exchange transactions (loan liabilities) or as nonexchange transactions in the financial statements of recipient governments.

Description of the Topic: This topic addresses transactions that are essentially permanent provisions of financial resources to governments in which the provider of the resources retains title or some other form of ownership rights to the resources. Specifically, the topic addresses: (a) federal capitalization contributions to Perkins Loan programs at colleges and universities; (b) federal funds provided to states to capitalize revolving loan funds from which loans are made to local governments for the construction, renovation, or expansion of sewage treatment facilities and appurtenances; and similar programs. The topic also encompasses the proper accounting for these transactions within the framework of existing accounting literature. Specifically, this topic addresses whether these transactions should be accounted for as nonexchange transactions or as exchange (loan) transactions.

The major issue to be discussed would be whether transactions within the scope of this topic fall within the scope of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As part of this issue, the following issues likely would be considered:

- Do the resources provided constitute financial resources as discussed in Statement 33?
- Does the federal government, or other provider, receive a direct benefit as discussed in Statement 33? If so, is the benefit commensurate with the resources provided?
- Is the "use" of a financial resource, as discussed in regard to meeting timing requirements, the same as "receiving" value, as discussed in paragraph 1 of Statement 33?
- How do these transactions differ from permanent endowments?

- Does a possibility of return of resources to the provider constitute a liability that should be reported differently than a subsequent contravention as discussed in paragraph 26 of Statement 33?

The following items would be excluded from the scope of this topic:

- Accounting for provisions of financial resources that are *not* essentially permanent (for example, long-term loans)
- Accounting for permanent or long-term provisions of capital assets to which the provider retains title—for example, the provision of a federally-owned helicopter to a state for the remaining useful life of the equipment, or permanent or long-term loans of artwork to museums.

Reasons for Considering Pre-Agenda Research on This Topic: The GASB has received several technical inquiries regarding the proper accounting for federal capitalization contributions to Perkins Loan programs at colleges and universities. Some colleges and universities believe that these contributions are nonexchange transactions and are recording them as revenue. Others point to language in the agreement with the federal government that states that the federal government retains ownership of the resources. They hold that the contribution is an exchange transaction and should be reported as a liability. The National Association of College and University Business Officers' *Financial Accounting and Reporting Manual,* Chapter 300, Section 333, states the following:

> Because amounts received from the federal government as FCCs will ultimately be returned to the federal government, NACUBO believes that the appropriate accounting for the FCC is as a liability (i.e., a refundable advance). Although the return of funds to the Department of Education may be unlikely, the advances are ultimately refundable to the federal government; and the institution is not permitted to keep them once the Perkins Loan Program ceases.
>
> Further, in fall 2009, Congress began considering fundamental changes to the Perkins Loan program. Under these proposals, Perkins Loans would be awarded by institutions but funded directly by the federal government and handled like Federal Direct Loans. Existing revolving Perkins funds would be liquidated as outstanding loans are repaid, with the FCC reverting to the federal government and the ICC going back to the institution. Under the proposals, institutions will have the option of assigning outstanding loans to the Department of Education or continuing collection efforts on their own.

Some question whether that guidance is appropriate given the facts and circumstances of the transaction.

The Perkins Loan amounts are material to some governments. Amounts outstanding for other revolving loan programs (for example, clean water revolving loans) are in the billions of dollars.

The topic has been ranked in the top half of potential topics in the 2009–2012 GASAC annual prioritization exercises. The GASAC members ranked the priority of this topic in the top 15 of all research activities and potential topics in 2013 and 2015, and in the top 10 in 2014.

History:

- Added to research topics: December 2003
- Transferred to the potential topics list: January 2006

## Impairments of Assets Other Than Capital Assets

Objective: The initial objectives of this potential topic would be (1) to research the types of assets other than capital assets that could be subject to impairment and (2) to determine whether existing guidance is adequate or if additional guidance on impairments for these assets is warranted. If additional guidance is determined to be needed, another objective would be to consider providing specific accounting and financial reporting guidance for impairments of assets other than capital assets.

Description of the Topic: Current guidance for impairment of noncapital assets is found in Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, paragraphs 8, 9 and 16; Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, paragraphs 17 and 18; and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* paragraphs 96 and 97 regarding contingencies.

Specific issues that would be evaluated as a part of this topic include the following:

- What factors or events indicate that impairment of a noncapital asset has occurred?
- What criteria should be used in determining when impairment of a noncapital asset should be recognized?
- What measurement method(s) should be applied to determine the amount of an noncapital asset's impairment?
- Should the measurement method(s) be based on incurred losses or expected losses?

Reasons for Considering Pre-Agenda Research on This Topic: This issue arose most recently during deliberations on the Fair Measurement and Application project. Considering recent efforts on this topic by other standards setters and the potential range of assets that could be affected, the Board decided it merited its own topic.

As noted above, there is reference to impairment of noncapital assets in Statements 31, 53, and 62. These Statements establish the possibility of impairment for certain noncapital assets but do not explain when impairment has occurred, how and when it should be recognized, or how impairment should be calculated.

As part of the FASB and IASB's convergence effort on Financial Instruments, the two boards have been deliberating the issue of impairment of financial assets. As a result of the financial crisis in 2008, stakeholders raised concerns about current "incurred loss" impairment models in which impairment is not recognized until incurred or probable. Initially, the Boards were jointly considering a "three-bucket" model that would apply to all debt instruments and would recognize lifetime expected credit losses based on which of three categories an instrument was classified in. In August 2012, the FASB decided to pursue an alternative approach deemed the "current expected credit loss" approach. Under this approach, impairment would still be based on lifetime expected losses but calculation would not depend on categorization of the asset into one of three categories. The FASB issued an Exposure Draft on impairment of financial instruments in December 2012. As a result of the proposed amendments, financial assets carried at amortized cost less an allowance would reflect the current estimate of the cash flows expected to be collected at the reporting date, and the income statement would reflect credit deterioration (or improvement) that has taken place during the period.

The FASB is expected to issue final guidance on this topic in 2016.

In its first three years of consideration, this topic was ranked by the GASAC members in the bottom half of all research activities and potential topics.

<u>History</u>:

- Added to the potential topics list: April 2013

## In-Kind Contributions

Objective: The initial objectives of this potential topic would be (1) to identify the various types of in-kind contributions currently received by state and local governments and (2) to determine whether existing standards are sufficient or if additional guidance needs to be developed for in-kind contributions. If it were determined that additional guidance is needed, the topic would consider specific accounting and financial reporting standards that would provide consistent reporting for these types of contributions.

Description of the Topic: The Board specifically excluded "contributed services" from the guidance in Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Those types of services also previously had been excluded from the scope of Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. As noted in paragraph 48 of Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the Board chose not to address the effects of regulator-required in-kind contributions on pollution remediation obligations.

The following issues would be considered during the pre-agenda research stage:

- What types of donations should be considered in-kind contributions?
- Should in-kind contributions be recognized in the financial statements or disclosed in the notes to the financial statements?
- Should the recognition or disclosure guidance be applied to all in-kind contributions?
- How should in-kind contributions be measured?

Reasons for Considering Pre-Agenda Research on This Topic: The Financial Accounting Standards Board (FASB) addressed in-kind contributions in Statement No. 116, *Accounting for Contributions Received and Contributions Made*. FASB Statement 116 provides, "Contributions of services shall be recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen. Contributed services and promises to give services that do not meet the above criteria shall not be recognized."

Since the release of FASB Statement 116, the GASB has received numerous inquiries to contributed services. There is no specific guidance for in-kind contributions in the GASB's standards. With the issuance of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, the guidance in FASB Statement 116 is now considered "other accounting literature."*

The topic was ranked in the top half of research activities and potential topics in the GASAC's 2012, 2013, and 2015 prioritization but outside the top 30 in 2014.

History:

- Added to research topics: December 2002
- Transferred to the potential topics list: January 2006

## Interim Financial Reporting

Objective: The initial objectives of this potential topic would be (1) to evaluate the importance of quarterly or semiannual financial reporting, for instance, to users of financial statements and (2) to assess the need for specific guidance related to interim financial reports. If guidance is determined to be needed, another objective would be to consider whether specific guidance should be issued regarding interim financial reporting.

Description of the Topic: In the course of developing Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Board considered incorporating APB Opinion 28, *Interim Financial Reporting* (now ASC 270, *Interim Reporting*), but decided not to because APB Opinion 28 conflicts with or contradicts existing GASB standards.

Specifically, the Board considered the following paragraphs from NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, as amended by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments:*

> Appropriate interim budgetary reports should be prepared during the fiscal period to facilitate management control and legislative oversight of governmental fund financial operations. Such reports are important both to revenue and expenditure control processes and to facilitate timely planning and budgetary revisions. [NCGAS 1, ¶93]
>
> Financial statements and schedules are derived from the accounts and related records. Interim financial statements cover periods of less than one year (e.g., a month or quarter) and traditionally have been prepared primarily for internal use. Annual financial statements are prepared for each fiscal year to serve information needs of both internal and external users. [NCGAS 1, ¶130]
>
> Interim financial reports are comprised principally of statements that reflect current financial position at the end of a month or quarter and compare actual financial results with budgetary estimates and limitations, for the month or quarter and/or for the year to date. Interim reports typically are prepared primarily for internal use. Thus, they usually are prepared on the budgetary basis and often do not include statements reporting general capital assets or general long-term debt. Further, they may properly contain budgetary or cash flow projections and other information deemed pertinent to effective management control during the year. [NCGAS 1, ¶133, as amended by GASBS 34, ¶80]
>
> The key criteria by which internal interim reports are evaluated are their relevance and usefulness for purposes of management control, which include planning

> future operations as well as evaluating current financial status and results to date. Continual efforts should be made to assure that accounting and related interim information properly serve management control needs. Because managerial styles and perceived information needs vary widely, however, appropriate internal interim reporting is largely a matter of professional judgment rather than one to be set forth in detail here. [NCGAS 1, ¶134]

The preceding paragraphs from the GASB literature set forth general principles regarding the use of interim financial reporting by governments and the purpose of such reporting. The FASB and AICPA pronouncements that address interim financial reporting, however, provide specific guidance on the application of accounting principles and practices in financial reports prepared for periods less than one year. The Board, therefore, concluded that the prescriptive nature of the provisions in APB Opinion 28 and related pronouncements conflicts with the general principles established in NCGA Statement 1. As a result, the Board decided to exclude these FASB and AICPA provisions from incorporation into the GASB literature and that a separate topic on interim financial reporting would be most appropriate.

The following issues would be considered during the pre-agenda research stage:

- Do interim financial reports of general purpose governments provide users with information that is valuable for making decisions and assessing accountability?
- Should specific recognition and measurement standards be developed for interim reporting?
- Should separate reporting entity standards be developed for interim reporting?
- Should guidance or guidelines be established regarding the timing of interim financial reporting?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: At present, no government-specific guidance is available for financial reporting for periods less than full fiscal years. Although interim financial reporting by general purpose governments is relatively infrequent, certain business-type activities such as public hospitals often prepare quarterly financial reports.

The topic was ranked in the top 10 research activities and potential topics in the GASAC's 2012 prioritization. In 2014 and 2015 the GASAC members ranked the priority of this topic third out of all research activities and potential topics. In 2013 it ranked fourth.

<u>History</u>:

- Added to the potential topics list: April 2011

## Investment Fees

Objectives: The initial objectives of this potential standards-setting topic would be (1) to review the ways in which governments report the fees charged to them, if any, in relation to investments, including fees associated with private equity funds, hedge funds, and real estate; (2) to identify the information needs of users pertaining to these fees; and (3) evaluate the sufficiency of existing guidance to result in appropriate reporting that meets user needs. The research would collect the information necessary for the Board to determine whether existing guidance is sufficient and, if not, to improve the relevant standards.

Description of the Topic: Several stakeholders have raised concerns regarding what they believe to be a lack of transparency with regard to the management fees associated with state and local government investments. Of particular note are investments in private equity funds, hedge funds, real estate, and similar ventures—sometimes referred to as alternative investments. A key concern is a perceived inability to fully identify the costs that are associated with these investments and to separate those costs from investment income in the financial statements of state and local governments. Some observers believe the accounting and financial reporting standards are not sufficient to result in investment-related fees being reported as expenses rather than being substracted from investment income.

GASB standards do not specify how fees related to investments should be reported in general. However, the issue is specifically addressed in the standards for pensions and other postemployment benefits (OPEB). Paragraph 22d of Statement No. 67, *Financial Reporting for Pension Plans*, requires recognition in a pension plan's statement of changes in fiduciary net position of "Net investment income, including separate display of (1) investment income (see paragraphs 23–25) and (2) investment expense, including investment management and custodial fees and all other significant investment-related costs (see paragraph 26)." Regarding investment expense, paragraph 26 requires that, "Investment-related costs should be reported as investment expense if they are separable from (a) investment income and (b) the administrative expense of the pension plan." The same requirements are applied to OPEB by Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

The topics that would be considered as part of this potential topic include:

- What information do governments report regarding fees associated with investments? What fees are netted against investment income rather than recognized as investment expense?
- What information about investment fees is made available to governments by the general partners or funds managing the alternative investments? Can additional information be obtained by governments, if necessary?
- Is more information needed regarding investments in general or just for alternative investments? What characteristics of alternative investments, if any, would justify additional reporting beyond what is required for investments in general?
- What information do financial statement users need regarding fees associated with alternative investments?

Reasons for Considering Pre-Agenda Research on This Topic: There are at least two reasons for conducting pre-agenda research on fees related to investments: (1) the growing presence of alternative investments in pension plan portfolios, and (2) the potential for variability in reporting of investment income and investment expense by governments.

The existing standards regarding whether fees are separable from investment income and administrative expense rely upon professional judgment. This inherent subjectivity may result in variation in reporting by governments and, therefore, a diminution of the usefulness of the reported information.

History:

- Added to the potential topics list: December 2015

## Popular Reporting

Objective: The initial objectives of this potential topic would be (1) to update research on the types of popular reports that are being issued by governments and (2) to determine if additional guidance is warranted. If guidance is determined to be needed, another objective would be to consider developing specific guidance regarding the preparation of popular reports to the citizenry and what type of guidance should be issued.

Description of the Topic: Within the framework developed in Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, popular reports are considered general purpose external financial reports that are separate from general purpose external financial reports that contain the basic financial statements, notes to basic financial statements, and supporting information. This topic considers whether criteria for an effective popular report should be developed and, if so, whether the criteria should be published in the form of a special report, standards, or some other communication.

The GASB released a research report in 1992 that focused on popular reporting. This research was designed to:

- Research the extent of financial reporting outside of the CAFR.
- Identify specific report characteristics that may enhance citizen understanding of municipal finances.
- Develop reports that may be understandable to citizens and useful in providing an overall view of municipal finances to the citizenry.

The research report found that a wide-variety of approaches to popular reporting were being used and discussed the content and presentation of the reports with preparers. The report continued to provide a prototype of what the researches believed to be a highly effective type of reporting. The following issues would be considered during the pre-agenda research stage:

- How prevalent is popular reporting under current practice and what forms are being used?
- Should criteria for an effective popular report be developed?
- How should the requirements be communicated?

Reasons for Considering Pre-Agenda Research on This Topic: Governments currently prepare popular reports for use by their citizens routinely, particularly relatively larger governments. Prior research by two academics that received one of the GASB's 2011 Crain Memorial Research Grants found that 77 percent of local governments and 85 percent of state governments responding to a survey publish some type of popular financial report. The reports included budget summaries, popular annual financial reports, service efforts and accomplishments reports, financial trends reports, and state of the government annual reports.

It is apparent that little consistency exists in the types of information that are reported in popular reports or in the way the information is presented and published. Government preparers of popular reports and the users of such reports—citizens—should benefit by a well-reasoned consideration of how popular reports can be made more effective. The academics observed a disparate group of persons and departments responsible for popular report preparation across governments and a wide range of dissemination methods.

The 1992 GASB research report on popular reporting called for a further examination of the ability of users to understand and use the report's prototype as well as study alternative prototypes. The 2011 Crain Grant funded research into citizen perceptions of popular reporting, including the types of information they most want to see and how they wish to receive the information. The grantees developed a prototype popular report based on their research with citizens and prior research on best practices, and used the prototype to obtain feedback from graduate and undergraduate students in public administration and public affairs programs.

The topic was in the top 15 research activities and potential topics in the GASAC's 2011–2013 and 2015 annual prioritization discussions and fifth overall in 2014.

History:

- Transferred to the potential topics list: January 2006

## Present Value

Objective: The initial objectives of this potential topic would be (1) to explore the applicability of present value measurement approaches to state and local government and (2) to consider the need to develop specific accounting and financial reporting standards describing how present value should be used in the measurement of assets and liabilities in a government's financial statements. If additional guidance is determined to be needed, another objective would be to develop specific accounting and reporting standards for these events.

Description of the Topic: Present value is generally understood to be the value of future cash flows discounted to their value in today's dollars. In Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, paragraph 97 (Basis for Conclusions), the Board noted:

> In its [Exposure Draft (ED)] and in this Statement, the Board concluded that the practice of discounting claims liabilities should be neither mandated nor prohibited because the effects of discounting in the area of claims and judgments are not yet fully understood. Board members were particularly concerned about discounting a liability that is a relatively "soft" estimate because it may imply a precision in the determination of the nondiscounted liability that does not exist. The majority commenting on the Board's decision to allow an option to discount agreed with this decision. However, several ED respondents urged the Board to reconsider its position, noting that it is important that the Board eliminate options in all of its standards. Others opposed discounting in any circumstances. In October 1988, the [Financial Accounting Standards Board (FASB)] added a topic on interest methods to its agenda. That topic is addressing a broad range of issues, including the use of present-value or discounted accounting measures, related measurement techniques based on interest, when and how interest methods should be used, and what rates should be used. The FASB expects to issue a neutral discussion document on the topic sometime in 1990. The GASB and its staff are monitoring this topic and will consider whatever information the topic produces. Until this work is complete, the Board believes that either mandating or prohibiting the practice as it applies to nonstructured settlements would be premature.

As a result of the FASB's due process, FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, was issued in 2000.

This issue was again raised in the development of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, and Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and most recently during the deliberations that led to the issuance of the Asset Retirement Obligation Exposure Draft.

The following issues would be considered:

- What are the objectives of present value measurements in financial reporting?
- What guidance should be provided for appropriate methods and inputs for the development of present values?
- When would the application of a present value be appropriate?
- What present value disclosures are appropriate?
- What differences exist or should exist between present value and fair value?

When faced with whether to provide specific guidance on how to determine the present value of a general liability (for example, nonexchange financial guarantees), the Board has chosen not to provide specific guidance, awaiting the outcome of this potential topic.

Reasons for Considering Pre-Agenda Research on This Topic: Present value has been raised as part of nearly every GASB Statement that contains measurement guidance. This topic is important as long as elements of financial statements are required to be reported at fair value or settlement value.

The topic was ranked in the top half of research activities and potential topics in the 2010–2013 and 2015 GASAC annual prioritization discussions and in the top 15 in 2014.

History:

- Transferred to the potential topics list: January 2006.

## Preservation Method

Objective: The initial objective of this potential topic would be to consider whether reported changes in asset condition levels (associated with the modified approach to accounting for infrastructure assets) can be measured in monetary terms that meet the qualitative characteristics for financial reporting. If those events can be measured and additional guidance is determined to be needed, another objective would be to develop specific accounting and financial reporting standards for changes in condition levels.

Description of the Topic: In developing Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* the Board considered alternatives to reporting depreciation expense for infrastructure assets on the statement of activities. One such alternative was the preservation method, which proposed reporting a capital use charge based on changes in an asset's condition level in the statement of activities. At the time, the Board heard from engineers and transportation finance officers and learned that although these approaches are of great value in managing infrastructure assets, they had not developed to the point at which consistent measurement methods or scales could be used to assess condition sufficient for recognition in financial statements. The Board tabled the preservation method and did not include the option in Statement 34, due to measurement and other issues. However, at that time, GASB staff was directed to monitor developments in this area.

As part of the monitoring efforts, a staff member served on a topic panel for the Transportation Research Board, a unit of the National Research Council of the Academy of Science. The topic catalogued and analyzed the approaches taken by state departments of transportation (DOTs) to comply with the requirements of Statement 34, with an emphasis on documenting why and how the approaches were implemented. The topic provided an assessment of the impact of Statement 34 on transportation finance and management of transportation assets. This research was sponsored by the National Cooperative Highway Research Program (NCHRP). A final report was issued in 2004.The staff also worked with the researchers experimenting with condition assessment methodologies. Most of the staff's work was the result of liaison efforts with the American Association of State Highway and Transportation Officials (AASHTO), the Federal Highway Administration (FHWA), and the American Public Works Association (APWA). Because the modified approach depends on information gathered by the engineering community, innovators in this area are DOTs and engineering consulting firms.

The following issues would be considered:

- What is the prevalence of reporting infrastructure assets using the modified approach? Which networks or subsystems is it being applied to? What methods are used to assess condition? What condition levels are set?
- How are users using the information resulting from the modified approach?
- Should the modified approach be applied to capital assets other than infrastructure?
- How has state and local government usage of asset management systems that meet the criteria in Statement 34, paragraph 23, changed since the issuance of Statement 34? Has the state of the art developed to the point that consistent measurement methods and scales are in place?
- Should a change in condition of capital assets have an impact on resource flows in the statement of activities and other resource flows statements? How would it be measured?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: Although the Board concluded that a preservation approach to accounting for infrastructure assets would not be included in Statement 34, as previously noted, the Board decided to continue monitoring both the development of asset management systems and the disclosures of governments that choose to use the modified approach. Available research on the use of the modified approach suggests significant variation.

An academic study of the use of the modified approach by state governments, Puerto Rico, and the District of Columbia, found that 23 governments (44 percent) use the modified approach to report some infrastructure assets, predominantly bridges and roadways.[1] Their analysis determined that the governments that chose to use the modified approach, in comparison with those that used depreciation, had infrastructure assets with a value that accounted for a greater percentage of total governmental activities assets, greater overall value of assets, larger population, and a higher percentage of principal arterial roadways rated in good and fair condition on the International Roughness Index, among other statistically significant differences.

[1] Thomas E. Vermeer, Terry K. Patton, and Alan K. Styles, "Reporting of General Infrastructure Assets under GASB Statement No. 34," *Accounting Horizons,* Vol. 25, No. 2, pp. 381–407.

One of the recipients of the 2011 Crain Memorial Research grant found less widespread usage of the modified approach among counties and cities. A review of the financial reports of 620 large and medium county and city governments found 37 governments (6 percent) use the modified approach. Preliminary findings suggest that counties are more likely than cities to use the modified approach, relatively larger governments are more likely to use it, and it is more likely to be used to report roads (a finding that echoes the study in the preceding paragraph). It may also be the case that governments with infrastructure assets in relatively better condition are more likely to use the modified approach (although the direction of causality is not clear—it may be that using the modified approach leads governments to keep their infrastructure in better condition).

During their February 2013 meeting, the GASAC members ranked the priority of this topic at the bottom of all research activities and potential topics. It was ranked in the bottom half in 2014 and second-to-last in 2015.

History:

- Added to research topics: December 1999
- Transferred to the potential topics list: January 2006

## Reporting Unit Presentations

Objective: This initial objective of this potential topic would be (1) to update research on separately-issued financial statements for reporting units that comprise less than a separate legal entity and (2) to consider whether guidance for these financial statements is warranted. If guidance is determined to be needed, another objective would be to consider establishing generally accepted accounting principles (GAAP) for separately-issued financial statements for reporting units that comprise less than a separate legal entity.

Description of Topic: For many years, governments have issued separate statements for funds, departments, and agencies and have characterized those statements as being in accordance with GAAP, even though there has never been a set of principles established for that particular reporting purpose. Government preparers and their auditors currently use professional judgment to apply existing standards to the extent they believe those standards are logical and appropriate in that reduced scope reporting situation. The 2005 edition of the AICPA audit guide for state and local governments addresses individual fund, departmental, and agency reporting in five paragraphs (which was not cleared by the GASB). The key point in that guidance is:

> Although GASB standards do not address the accounting and financial reporting for separately issued GAAP-based financial statements [for a department or for one or more individual funds], in meeting their reporting obligations, auditors should consider long-established practice dictating that those presentations should apply all relevant GAAP. Thus in developing an opinion on the separately issued GAAP-based financial statements [for a department or for one or more individual funds], the auditor considers whether the financial statements include all relevant GAAP financial statements, note disclosures, MD&A topics, and other RSI.

There is widespread uncertainty about the extent to which the government-wide reporting standards in Statement 34 should be applied to departmental or agency financial statements.

Issues that would be addressed include:

- Should an agency or department report focus on demonstrating operational accountability?
- Should guidance be developed for determining the boundaries of departments for reporting purposes? If so, what should that guidance be?

- Should guidance be provided regarding the number and categories of funds that could be included in a fund financial report versus a departmental report? If so, what is that guidance?
- Should guidance be developed for developed for part-of-a-fund financial reports?
- Should there be agency- or department-wide financial statements to accompany the financial statements that present the funds which comprise the agency or department?
- How should specific assets, liabilities, revenues, and expenditures/expenses (including noncurrent assets and liabilities and government-wide obligations) be assigned, attributed, or allocated to a department or agency?
- By what criteria should those assignments and allocations be evaluated to ascertain whether they “fairly present?”
- Should major fund reporting requirements, internal activity eliminations, and other requirements applicable to GAAP presentations apply to fund and departmental reports?

There is currently diversity in practice with reporting unit financial statements regarding what constitutes a complete set of basic financial statements. In addition, the following issues have arisen in technical inquiries:

- Should MD&A be considered required supplementary information?
- Should component units be included in the “reporting entity” of the reporting unit (for example, should college enterprise fund statements include foundation component units)?
- How should intra-entity transactions (that is, appropriations, transfers from other funds within the primary government) be classified?
- Which notes to the financial statements and required supplement information that are normally presented for the primary government as a whole should be presented by a reporting unit?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: Questions regularly come to the staff about what should be included in fund/departmental financial statements that are “required” (such as by state laws and regulations) to be reported in accordance with GAAP. In the absence of specific guidance within the GASB literature, however, satisfactory answers cannot be provided by the staff.

This issue was ranked among the top 10 research activities and potential topics in the past five years.

History:

- Added as a research topic (with a reexamination of Statement 14): January 2006
- Transferred to the potential topics list: April 2009

## Social Impact Bonds

Objectives: The initial objectives of this potential standards-setting topic would be to investigate how governments are reporting social impact bonds, whether that reporting conforms with existing standards and concepts, and what information that users need, if any, regarding these transactions. The research would collect the information necessary for the Board to determine whether specific guidance is needed for social obligation bonds and, if so, to establish standards.

Description of the Topic: Social impact bonds or SIBs (also called social innovation financing and pay-for-success) are transactions in which a third party issues debt and provides the proceeds to a government or another service provider to devote to an agreed-upon socially desirable program, such as alleviating homelessness or reducing recidivism among former jail inmates. In a typical SIB agreement, the bondholders are repaid from the savings that arise from the program successfully achieving its objectives, as measured by a neutral evaluator. If the program objectives are not met, the bondholders are not repaid. Some SIB agreements have included a guarantee from an individual philanthropist or foundation to indemnify the issuer of the bonds or the bondholders against the loss of some or all of their investment.

The topics that would be considered as part of this potential topic include:

- Do SIBs meet the definition of a liability that should be recognized in the financial statements?
- Are SIBs a contingent liability that should be disclosed in the notes to the financial statements? If so, what criteria should be applied to determine when recognition as a liability should occur?
- What commitments, if any, does a government make in an SIB that could be liabilities or contingent liabilities as well (for instance, a requirement that the government continue to operate the program after the SIB funding ceases)?
- What information do financial statement users need regarding these transactions, their payment provisions, and the likelihood that a government will have to make payment?

Reasons for Considering Pre-Agenda Research on This Topic: SIBs are still in a nascent stage of development (the first was implemented in 2010 in the United Kingdom). Despite involving several state governments and large cities such as New York, most SIBs have been small in scale.[2] Nevertheless, interest in SIBs appears to be growing steadily among U.S. governments. Funding for SIBs has been included in recent proposed federal budgets, and related bills that would require the Treasury Department to establish an SIB program for state and local governments were introduced in Congress and referred to committee in June 2014; however, no federal SIB program has yet been established.

[2] According to a study by the Brookings Institution, 25 of 38 SIBs examined served 1,000 or fewer people. See Emily Gustaffson-Wright, et al., *The Potential and Limitations of Impact Bonds: Lessons from the First Five Years of Experience Worldwide* (Washington, DC: Brookings, July 2015).

## Social Security Disclosures

Objectives: The initial objective of this potential standards-setting topic would be (1) to review the ways in which governments have disclosed information about their participation in the federal Social Security program and (2) to identify the information needs of users pertaining to a government's participation in the program. The research would collect the information necessary for the Board to determine whether disclosure of such participation is needed and, if so, to develop financial reporting standards to address that need.

Description of the Topic: A stakeholder has expressed interest in comparing the total cost to state and local governments of compensation received by employees of state and local governments. Components of this compensation include salaries, compensated absences, health insurance and life insurance, and pensions and other postemployment benefits, as well as certain taxes associated with those benefits. Currently, governments are not required to disclose in basic financial statements whether they pay taxes in relation to the Federal Insurance Contributions Act on the earnings of their employees, or certain groups of their employees, for participation in the Social Security program. The stakeholder has indicated that the absence of information about participation in the Social Security program makes these cost comparisons difficult.

The following issues would be considered during the research:

- To what extent is participation in the Social Security program disclosed by governments under existing standards? What variations exist in the information disclosed?
- What specific user needs exist regarding a government's participation in the Social Security program?
- What information is readily available from sources other than financial statements to determine whether a government participates in the Social Security program?

Reasons for Considering Pre-Agenda Research on This Topic: A respondent to the Exposure Draft, *Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68,* expressed concerns to the GASB about the ability to make comparisons about pensions because of the lack of information about the participation of employers in the Social Security program. This respondent noted that comparison of employers' costs can be misleading if one employer participates in the Social

Security program and another does not because the cost of pensions often is less in circumstances in which the employer participates in the Social Security program. This issue also was raised by a few respondents to the Pensions Issues Exposure Draft.

Existing GASB standards require employers to disclose a brief description of the terms of the pensions and other postemployment benefits provided to their employees but do not explicitly address disclosures about a government's participation in the Social Security program.

In 2015, this potential topic ranked 25th among all pre-agenda research activities and potential topics in the GASB's technical plan.

<u>History</u>:

- Added to the potential topics list: December 2014

# Potential Reexamination Topics

## Accounting for Prior-Period Adjustments, Accounting Changes, and Error Corrections—Reexamination of Statement 62

Objective: The initial objectives of this potential topic would be (1) to study (a) the prevalence of prior-period adjustments, accounting changes, and error corrections by state and local governments, (b) the consistency with which existing guidance is applied, and (c) the effectives of that guidance, and (2) to consider the need for revisions to existing standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for prior-period adjustments, accounting changes, and error corrections.

Description of Topic: Adjustments to the financial statements of prior periods are required when there is a change in accounting principle (for instance, a shift from the consumption method to the purchases method of inventory accounting, or the implementation of a new GASB Statement) or a change in a government's financial reporting entity would require. The former requires a government to adjust beginning net position or fund balance, as appropriate. The latter requires a restatement of the prior period's financial statements as if the new structure of the financial reporting entity had been in place in that period.

Guidance on accounting for prior-period adjustments, accounting changes, and error corrections has historically been based upon several sources of accounting literature, many of which are superseded. These sources include APB Opinion No. 9, *Reporting the Results of Operations, Part 1—Net Income and the Treatment of Extraordinary Items and Prior Period Adjustments,* FASB Statement No. 16, *Prior Period Adjustments,* APB Opinion No. 20, *Accounting Changes,* and FASB Interpretation No. 20, *Reporting Accounting Changes under AICPA Statements of Position an Interpretation of APB Opinion No. 20*. This disparate guidance was brought into the GASB literature by Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Statement 62 requires disclosure of the effects of prior-period adjustments on the change in net assets of prior periods. Statement 62 also stipulates the treatment of changes in (a) accounting principle, (b) accounting estimate, and (c) the reporting entity. Lastly, Statement 62 requires that corrections of errors in previously issued financial statements should be reported as prior-period adjustments.

The questions that would be addressed include:

- How prevalent are prior-period adjustments, accounting changes, and error corrections in state and local government financial statements?
- What is the nature of the prior-period adjustments, accounting changes, and error corrections that are being reported? How large are the amounts involved?
- Are users aware of the reporting of prior-period adjustments, accounting changes, and error corrections? Do users understand what they mean?
- Is information about prior-period adjustments, accounting changes, and error corrections valuable to users for making decisions and assessing accountability? How is it used?
- Statement 62 requires governments to present financial statements of prior periods as previously reported even though an accounting change has occurred. How frequently do governments include prior-period financial statements after an accounting change? Are the financial statements presented as previously reported or are they adjusted for the accounting change?

Reasons for Considering Pre-Agenda Research on This Topic: Accounting and reporting for prior-period adjustments, accounting changes, and error corrections are common topics that impact a majority of constituents. There are about 10 technical inquiries per year on these topics. Further, the various accounting literature used to develop these requirements has been in place for many years. APB Opinion 20, for instance, was issued in 1971. The FASB has reexamined some of this literature, replacing APB Opinion 20 and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, with FASB Statement No. 154, *Accounting Changes and Error Corrections*. However, because these changes were made subsequent to November 30, 1989, they were not considered for incorporation into the GASB's literature through Statement 62.

A Gil Crain Memorial Research Grant was awarded to two academics to study the prevalence of prior-period adjustments, accounting changes, and error corrections and the state of current practice with regard to the relevant standards. That research is expected to be concluded in late 2016.

In 2013 and 2014 the GASAC members ranked the priority of this topic in the bottom half of all research activities and potential topics. It ranked 20th in 2015.

History:

- Added to the potential topics list: December 2010

## Asset Impairment: Capital Assets—Reexamination of Statement 42

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, as amended. This would include survey the application of Statement 42 in practice and (2) to consider whether revisions to that pronouncement should be developed. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for capital asset impairments.

Description of the Topic: Statement 42, issued in 2003, provides accounting and financial reporting guidance for identifying, measuring, recognizing, and reporting the impairment of capital assets. The technical inquiry databases contain nearly 80 technical inquiries regarding capital asset impairment during the past eight years. Many of the inquiries ask for application guidance under a specific set of circumstances. The GASB responses usually apply or interpret the guidance in the Statement to the specific situations in the inquiries, but the nature of the inquiries generally does not indicate that provisions of the Statement are unclear, inappropriate, or difficult to apply.

The following issues would be considered:

- Is there a discernible pattern in the issues raised in technical inquiries that might identify a deficiency in the guidance?
- How has Statement 42 been applied in practice? What types of impairments occur most often? Is the guidance in Statement 42 sufficient for the accurate and prompt reporting of impairments?
- Do the notes to the financial statements present the required information?
- How should the amount of asset impairment be determined when there are uncertainties about either one or more of the inputs to the measurement? If it is not known whether the capital asset will continue to be used?
- Is the information that results from the reporting of capital asset impairments useful for decision making? Does it help users in assessing accountability?

Reasons for Considering Pre-Agenda Research on This Topic: The GASB routinely reviews its existing standards to ensure that they remain relevant and up-to-date. These reviews typically take place after a pronouncement has been in effect long enough to be fully evaluated. Statement 42 was first effective for periods beginning after December 15, 2004. One of the impairment indicators was modified by Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and an additional modification is being proposed in the ARO Exposure Draft. The FAF's Post-Implementation Review published the results of its examination of Statement 42 in August 2014.

During their February 2013 meeting, the GASAC members ranked the priority of this topic in the bottom half of all research activities and potential topics. In 2014 the topic was ranked in the top 15, and in 2015 in the top 20.

<u>History</u>:

- Added to the potential reexamination topics list: December 2010
- FAF Post-Implementation Review: August 2014

## Capitalization of Interest Cost—Reexamination of Statement 62

Objective: The initial objectives of this potential topic would be (1) to evaluate the continued effectiveness of the accounting and financial reporting standards for capitalization of interest cost and (2) to consider the need for improvements to those standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards that would enhance the transparent and consistent reporting of the capitalization of interest costs.

Description of the Topic: Accounting guidance for capitalization of interest cost historically has been based upon FASB Statement No. 34, *Capitalization of Interest Cost,* as amended, and FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. This potential topic was identified in the Board's consideration of matters related to Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The standards incorporated by Statement 62 state that "the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. If an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during that period as a result of outlays for the asset is a part of the historical cost of acquiring the asset." (Paragraph 7, footnotes omitted) Statement 62 identifies the types of assets for which interest should and should not be capitalized, describes how to determine the amount to be capitalized, the length of the period during which interest should be capitalized, and requires certain disclosures related to the capitalization of interest. As stated in paragraph 553 of the Basis for Conclusions:

> GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, provides that construction-period interest on assets used in the governmental activities should not be capitalized. Therefore, the Board modified the scope of the provisions from FASB Statements No. 34, *Capitalization of Interest Cost,* and No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants,* to exclude interest costs reported for governmental activities.

Some respondents to the Exposure Draft of Statement 62 took issue with the start date for interest capitalization differing for taxable and tax-exempt borrowing. Some respondents recommended that this distinction be replaced with criteria that distinguish debt that is issued as an integral part of the decision to acquire the asset from other debt.

The following issues would be considered:

- How prevalent is the capitalization of interest cost by state and local governments? How are the provisions of existing standards applied to the various types of interest-bearing borrowing by governments?
- Should the beginning of capitalization differ depending on whether a borrowing is taxable or tax exempt?
- Should the guidance for capitalization differ for governmental activities and business-type activities?
- What are the most suitable criteria for determining when capitalization should begin?
- Do the existing standards for capitalization of interest cost, in general, continue to be effective?

Reasons for Considering Pre-Agenda Research on This Topic: Although GASB Statement 62 brought the FASB guidance into the GASB's literature in 2010, the Board did not consider the effectiveness of that guidance. Existing pronouncements are considered eligible for reexamination after they have been in effect long enough to be meaningfully evaluated; this is generally 5 to 10 years after their effective date. FASB Statements 34 and 62 were issued in 1979 and 1982, respectively. GASB Statement 37 was issued in 2000. The GASB has not broadly considered whether the existing capitalization guidance continue to function appropriately in the state and local government, nor investigated if the standards are applied accurately or results in information that is useful for making decisions and assessing accountability.

During their February 2013 meeting, the GASAC members ranked the priority of this topic in the middle of all research activities and potential topics. In 2014 and 2015 the topic was ranked 30th and 29th, respectively.

History:

- Added to the potential topics list: December 2010

## Chapter 9 Bankruptcies—Reexamination of Statement 58

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies,* and (2) to consider the need for revisions to existing standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting for bankruptcies.

Description of Topic: Prior to the issuance of Statement 58 in December 2009, there was no authoritative accounting and financial reporting guidance for governments filing for bankruptcy. The Statement requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. For accounts payable, notes, debentures and bonds, and related interest payable, governments base remeasurement on the new payment plan. Reductions in future interest payments result in lower interest costs reported in future periods. Reductions to principal or to accrued interest payable may result in gains reported at the time of the reduction.

For leases, pollution remediation liabilities, and liabilities for pension and other postemployment benefit plans, Statement 58 requires remeasurement based on existing authoritative guidance for those liabilities. However, if a benefit plan is rejected in bankruptcy and becomes general unsecured debt, the Statement requires the existing liability to be removed and a new approved payment plan to be recognized as a judgment, with a gain or loss recognized for the difference.

Governments that have filed for bankruptcy are required to disclose information regarding, among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services. Statement 53 was effective for periods beginning after June 15, 2009.

The questions that would be addressed in this pre-agenda research include:

- Do the existing standards continue to appropriately capture the features of bankruptcy payment plans?
- Some debt payments in Chapter 9 bankruptcy are replaced with payments based on interest rates that increase over time, which may make it difficult to discern whether principal or

interest payments, or both, have been reduced. Is new guidance needed to address these types of payment provisions?

- Should professional fees and other costs associated with the bankruptcy be reported as a special or extraordinary item?
- Subsequent to the issuance of Statement 58, the Board issued guidance on the reporting of deferred outflows of resources and deferred inflows of resources in Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Should the recognition of gains in the current period due to reduction in principal or accrued interest be reconsidered as a deferred inflow of resources?
- Have disclosures presented in conformity with the requirements of Statement 58 sufficiently met users' needs?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: The number of governments filing for Chapter 9 bankruptcy increased notably during the recession that begin in 2008, but still represents relatively few governments. However, for those governments that do file, and for the users of those governments' financial statements, the guidance in Statement 58 is highly important. This pre-agenda research activity would allow for an assessment of the provisions of payment plans deriving from Chapter 9 proceedings since the issuance of Statement 58, to determine if it continues to appropriately address how the effects of the payment plans should be recognized and measured.

Due to the limited number of governments that could apply the standards, the GASB has recorded just nine technical inquiries related to Statement 58.

## Compensated Absences—Reexamination of Statement 16

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 16, *Accounting for Compensated Absences,* as amended, and (2) to consider whether additional guidance needs to be developed. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for compensated absences.

Description of the Topic: Compensated absences are leave time for which employees will be paid at the end of their employment, such as vacation, sick leave, and sabbatical leave. Before the issuance of Statement 16, the existing standards of accounting and financial reporting for compensated absences were established in NCGA Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*. Although the criteria for measuring the liability was the same for all fund types, differences between the measurement focuses of governmental and proprietary fund types resulted in differences in the amounts recognized in a period's operations and in how the accrued liability was displayed. Statement 16 was issued in 1992 to establish standards of accounting and reporting for compensated absences regardless of the reporting model or fund type used to report the transactions.

Compensated absences are a fairly common topic for technical inquiries. Over 50 inquiries have been documented in the databases during the past six years. Because the searchable technical inquiry databases were created in 2002, early questions about initial implementation issues and the answers provided are not readily retrievable for review. Many of the inquiries ask for application guidance under a specific set of circumstances. Recurring or significant issues include:

- The effects of Interpretation 6 on accruals in governmental funds
- Using an internal service fund to account for compensated absences
- Conversion of accumulated amounts at termination to defined pension or other postemployment benefits
- Accounting for a compensated absences liability when the obligation is funded and payments into the fund are determined actuarially.

The staff responses to the questions in the databases usually apply or interpret the guidance in the Statement to the specific situations in the inquiries and generally do not indicate that provisions of the Statement are unclear or difficult to apply. Virtually no questions have been asked about how to measure the liability under the provisions of paragraph 8 in recent years.

The following issues would be considered in the topic:

- How decision-useful has information about compensated absences been subsequent to the implementation of Statement 16?
- What method(s) do governments use to calculate the liability for compensated absences: the *termination payment method* or the *vesting method* (as described in paragraph 8 of Statement 16)?
- Should there continue to be a choice regarding how to calculate the liability? Should one method be eliminated? Should additional provisions be included to allow for recognition of a liability in a manner comparable to those for defined benefit pension and other postemployment benefit plans?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: The GASB routinely reviews its existing standards to ensure that they remain effective. These reviews typically take place after a pronouncement has been in effect long enough to be fully evaluated. Statement 16 was first effective for periods beginning after June 15, 1993. Certain provisions in the Statement have been superseded or amended by Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities,* Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.* However, the effectiveness of Statement 16 itself has not been evaluated. It is one of the longest standing GASB pronouncements yet to be reexamined.

External research on compliance with Statement 16 was conducted with funding from the GASB's Crain research grant program. That research was completed in August 2009.

In 2013–2015 the GASAC members ranked the priority of this topic in the middle of all research activities and potential topics.

History:

- Added to the potential reexamination topics list: December 2008

## Conduit Debt—Reexamination of Interpretation 2

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*, and (2) to consider the need for revisions to existing standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for conduit debt.

Description of the Topic: Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

Interpretation 2 was issued in 1995 as "interim" guidance pending the Board's conceptual framework project on financial statement elements. Paragraph 12 of Interpretation 2 explains the Board's reasoning:

> The Board concluded that issuers of conduit debt obligations should not be required to recognize a liability, but that such debt should be disclosed and quantified. The Board currently has on its agenda a conceptual framework project that will address the definition of elements of financial statements, including liabilities. Therefore, it has decided that questions relating to accounting recognition for conduit debt transactions should be reconsidered after further progress is made on that project. However, because existing disclosures of conduit debt transactions are inconsistent among issuers and often fail to adequately inform readers of these transactions' significance, the Board concluded that the standardized disclosure requirements set forth in this Interpretation will improve the level of readers' understanding of these transactions until recognition issues can be addressed. ...

In June 2014, the GASB awarded a Gil Crain Memorial Research Grant to fund research on the current state of practice in reporting conduit debt. The research consisted of archival studies of the financial reports of state issuers of conduit debt, in general, and specifically of issuers in California—both "dedicated" conduit issuers and local governments known to have outstanding conduit debt—and selected interviews with financial statement users. The researchers concluded, in part:

> Overall, we find that conduit debt obligation disclosures are generally in compliance with GASB guidance [for the governments examined]. Further, disclosure compliance is fairly even whether analyzing state governments, local governments, or the dedicated conduit issuers themselves. Additionally, [the interviewed] users of financial statements generally find current GASB disclosure requirements reasonable and adequate for their purposes...
>
> For [the interviewed] financial statement users interested in analyzing a government's financial health, conduit debt is not viewed as terribly important for analysis. This was because [the interviewed] users recognize that the government is not the obligor of the debt issues...
>
> Financial statement users [interviewed] do express some uncertainty about whether governments (at both the state and local level) serving as conduit might step in if the actual obligor defaulted on borrowing. This uncertainty exists even in the absence of legal requirements to do so... Currently, users [interviewed] cannot discern if conduit debt not disclosed is immaterial or not disclosed as required...
>
> Finally, financial statement users [interviewed] view conduits not just in terms of public finance, but also in terms of accountability. Multiple users expressed cynicism about the purposes and quality of conduit debt activity, especially when governments issued debt through conduits to potentially avoid debt limits...

The following issues would be considered:

- How useful has information about conduit debt been for making decisions and assessing accountability?
- Under what circumstances, if any, do conduit debt obligations constitute a liability of the government issuing the debt?
- If conduit debt is a liability of the issuing governments, is the amount owed by third-party entities an asset (receivable) of the government?
- How should the primary government's financial statements reflect conduit debt issued in one of its component units on behalf of the primary government?
- If conduit debt has been defeased, how should it be reported?
- What is meant by the phrase *within the same reporting agency* (paragraph 2 of Interpretation 2)?

<u>Reasons for Considering Pre-Agenda Research on This Topic:</u> The interim guidance in Interpretation 2 has remained in effect for over 15 years, in part because Concepts Statement No. 4, *Elements of Financial Statements*, was not completed until June 2007. With the

definition of a liability established by Concepts Statement 4, the issue that remained unanswered in Interpretation 2 can now be considered.

More than 20 technical inquiries on conduit units have been logged in the GASB's technical inquiry databases over the past three years. The topic was ranked in the top half of all research activities and potential topics in the 2011–2014 GASAC annual prioritization discussions. It was ranked 14th in 2015.

History:

- Transferred to the potential topics list: January 2006

## **Costs and Initial Rental Operations of Real Estate—Reexamination of Statement 62**

Objective: The initial objective of this potential topic would be (1) to examine whether capitalization of costs associated with acquiring, developing, constructing, selling, and renting real estate projects meets the needs of financial statement users and (2) to consider the need for revisions to existing standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for those activities.

Description of the Topic: The guidance incorporated into the GASB literature by Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* specifically covers "accounting and reporting standards for acquisition, development, construction, selling, and rental costs associated with real estate projects," including "accounting for initial rental operations and criteria for determining when a rental project is substantially completed and held available for occupancy." (Paragraph 350) Statement 62 specifically addresses the following issues related to real estate projects: (a) preacquisition costs, (b) insurance, (c) project costs, (d) amenities, (e) incidental operations, (f) allocation of capitalized costs to components of a real estate project, (g) revisions of estimates, (h) abandonments and changes in use, (i) selling costs, (j) rental costs, and (k) costs in excess of estimated net realizable value.

The guidance in Statement 62 generally requires capitalization of costs associated with real estate projects using varying approaches depending on the type of cost and the period of the project in which it is incurred. Two examples of the guidance are:

- Project costs clearly associated with the acquisition, development, and construction of a real estate project should be capitalized. Indirect project costs that relate to several projects should be capitalized and allocated to the projects to which the costs relate. Indirect costs not clearly related to projects under development should be charged to expense as incurred.
- If costs incurred to rent real estate projects, other than initial direct costs, under operating leases are related to and their recovery is reasonably expected from future rental operations, they should be capitalized.

In contrast to the guidance in Statement 62, paragraph 18 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, states, "Capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use."

The following issues would be considered:

- Are the capitalization provisions of Statement 62 applied consistently to all capital transactions?
- Should costs associated with acquiring, developing, constructing, selling, and renting real estate projects be capitalized?

Reasons for Considering Pre-Agenda Research on This Topic: The costs and initial rental operations of real estate guidance historically has been based on FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, which was issued over 20 years ago. The applicable provisions of FASB Statement 67 were incorporated "as is" by Statement 62 and the Board did not evaluate its continued relevance.

During their February 2013 meeting, the GASAC members ranked the priority of this topic at the bottom of all research activities and potential topics. It was ranked near the bottom in 2014 and 2015.

History:

- Added to the potential topics list: December 2010

## Deferred Compensation Plans—Reexamination of Statement 32

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, and (2) to consider the need for revisions to existing standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for deferred compensation plans.

Description of the Topic: Statement 32 was developed in response to a change in the Internal Revenue Code requiring that deferred compensation plan assets be "held in trust for the exclusive benefit of participants and their beneficiaries." Statement 32 requires that a government report a plan if it has fiduciary responsibility for it. The Statement refers readers to existing guidance that establishes the fiduciary responsibility notion. However, the Basis for Conclusions suggests that fiduciary responsibility could include holding or investing the plan assets.

Statement 32 was developed with general purpose governments in mind. There is some question as to whether business-type activities that report using a single column should report deferred compensation plans, and other employee benefits plans, within the column. A separate potential reexamination topic is considering the most appropriate method of reporting component units for business-type activities.

The following issues would be considered:

- Are the requirements of Statement 32 sufficiently meeting the needs of financial statement users?
- Do the requirements produce comparable results among governments? Are governments consistent in assessing whether they have fiduciary responsibility for Section 457 plans and whether they hold the assets in a trustee capacity?
- Should the scope of Statement 32 be reexamined?
- Is further clarification needed (as some respondents to the Exposure Draft stated) for when a government is required to report its Section 457 plan (or when *any* activity meets the fiduciary criteria)?

Reasons for Considering Pre-Agenda Research on This Topic: Statement 32 has been in effect since periods beginning after December 31, 1998. The effectiveness of the standards has not been evaluated.

Technical inquiries regarding Statement 32 are rarely received—fewer than 10 over the past 3 years. Inquiries typically involve a discussion of whether the government has sufficient fiduciary responsibility for a deferred compensation plan to require reporting the plan. The notion of fiduciary responsibility, including presentations in financial statements of business-type activities, was at one time a part of the scope of the reexamination topic that resulted in Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and 34.* However, the Board ultimately decided that the issue needed to be addressed separately from financial reporting entity and required further study and discussion. That Fiduciary Activities issue currently is being deliberated by the Board (an Exposure Draft was issued in December 2015). .

During their February 2013 meeting, the GASAC members ranked the priority of this topic in the top half of all research activities and potential topics. It was ranked near the middle in 2014 and 14th in 2015.

History:

- Added to the potential reexamination topics list: December 2008

# Derivative Instruments—Reexamination of Statements 53 and 64

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statements No. 53, *Accounting and Financial Reporting for Derivative Instruments* and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, and (2) to consider the need for revisions to existing standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting for derivative instruments.

Description of Topic: Governments enter into derivative instrument transactions to manage specific risks, to make investments, and to lower the cost of borrowing. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.

Statement 53 was issued in June 2008 and was effective for periods beginning after June 15, 2009. The Statement requires that derivative instruments generally be reported at fair value in financial statements prepared using an economic resources measurement focus and accrual basis of accounting, with some exceptions. Changes in the fair value of derivative instruments should be reported in investment income unless the derivatives can be shown to be effectively hedging the risk of loss of cash flows or fair value of the item being hedged. If a derivative instrument is an effective hedge—meaning it substantially offsets the cash flows or changes in fair value of the hedged item—based on the methods for assessing hedge effectiveness described in Statement 53, it is considered a *hedging derivative*. All other derivative instruments are considered *investment derivatives*. The changes in fair value of a hedging derivative are reported as deferred outflows or resources or deferred inflows of resources, rather than as investment income.

If a termination event occurs—for instance, the derivative arrangement is ended early, the derivative ceases to be an effective hedge, or the hedged item is sold or retired—a hedging derivative's accumulated deferred outflows of resources or deferred inflows of resources are reported as investment income. From that point forward, it is considered an investment derivative and changes in its fair value are reported with investment income.

Statement 64 was issued in June 2011 to address certain circumstances of terminations of derivative transactions that occurred in the wake of the recession. Specifically, the government's swap counterparty, or the swap counterparty's credit support provider, committed or experienced either an act of default or a termination event and the government replaced its swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. Under Statement 53, a government to would be required to cease hedge accounting and immediately recognize the deferred outflows of resources or deferred inflows of resources as investment income, although the termination of the arrangement occurred through no fault of the government. Statement 64 set forth criteria indicating that an effective hedge continues to exist, thereby allowing a government to continue using hedge accounting.

Statement 53 incorporated and built upon the disclosures required by Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets.* The objectives, terms, and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements.

The questions that would be addressed include:

- Statement 53 defines derivative instruments. Does this definition adequately address the financial instruments that governments are currently entering into?
- Statement 53 excludes certain derivative instruments from the scope of the standard and excludes certain derivative instruments from fair value. Do these exclusions continue to be appropriate?
- Statement 53 provides specific methods of evaluating hedge effectiveness. Are these methods being applied as intended? Are the parameters for these methods set appropriately? Are there other methods that should be addressed?
- Do Statement 53's disclosures meet the needs of users?
- Statement 53 provides that fully benefit-responsive synthetic guaranteed investment contracts should be measured at contract value. Is that exception to fair value still appropriate?
- Statement 64 provides an exception to Statement 53's termination of hedges guidance. Have there been changes in the economic environment such that exception is no longer appropriate? Should the exception be expanded or continued?

Reasons for Considering Pre-Agenda Research on This Topic: Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, often are complex financial arrangements that can expose governments to significant risks and liabilities. Following the onset of the recession, in fact, many derivative arrangements with governments were terminated—requiring the governments to make substantial cash payments to their counterparties—before those governments had even implemented Statement 53.

Since its issuance, the GASB has recorded 435 technical inquiries related to Statement 53. This number has dropped somewhat since the passing of the effective date. The GASB staff has received approximately 32 inquiries a year since 2011.

## Escheat Property—Reexamination of Statement 21

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 21, *Accounting for Escheat Property*, and (2) to consider the need for revisions to existing standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting for escheat property.

Description of the Topic: An escheat is the reversion of property to a governmental entity in the absence of legal claimants or heirs. The Board addressed escheat property in response to requests from various state governments that indicated that a literal interpretation of the existing guidance could lead to extreme results. Prior to Statement 21, accounting for escheat property was governed by NCGA Interpretation No. 9, *Certain Fund Classifications and Balance Sheet Accounts*, issued in 1984. The major issue to be considered would be whether the standards result in an accurate depiction in the financial statements of the nature of escheat assets and liabilities. As part of this issue, the following issues might be considered:

- How decision-useful has information about escheat property been subsequent to the implementation of Statement 21?
- Has the nature of escheat property and the laws regarding them changed subsequent to the implementation of these standards?
- Have there been any difficulties in estimating the liabilities for the amounts ultimately expected to be reclaimed and paid to others?
- Is *probable* the appropriate threshold for recognition?
- Are the escheat property standards being applied consistently among governments?
- Is it still appropriate to account for escheat property in the governmental or proprietary funds to which the property ultimately escheats?
- Is it still appropriate to account for escheat property *held for others* in a private-purpose trust fund, an agency fund, or in the governmental or proprietary fund in which escheat property is otherwise reported, with a corresponding liability?

Reasons for Considering Pre-Agenda Research on This Topic: The GASB routinely reviews its existing standards to ensure that they remain effective. These reviews typically take place after a pronouncement has been in effect long enough to be fully evaluated. Statement 21 has been in effect since periods beginning after June 15, 1994. Statement 21 was amended by Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34,* to conform to the new financial reporting model. However, the effectiveness of Statement 21 was not evaluated at that time.

The GASB has received few technical inquiries from constituents regarding the application of Statement 21 and is unaware of any pervasive issues concerning the effectiveness of the guidance on accounting for escheat property otherwise.

During their February 2013 meeting, the GASAC members ranked the priority of this topic in the bottom half of all research activities and potential topics. It was ranked in the bottom third in 2014 and tied for last in 2015.

<u>History</u>:

- Added to the potential reexamination topics list: December 2008

## Intangible Assets—Reexamination of Statement 51

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and (2) to consider the need for revisions to existing standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting for intangible assets.

Description of Topic: The definition of a capital asset in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* included intangible assets as an example. This prompted inquiries from stakeholders implementing the Statement regarding whether certain of their assets constituted intangible assets and, if so, how they should be reported. Statement 51 was intended to provide that guidance.

The Statement identifies intangibles as assets that lack physical substance, are nonfinancial in nature, and have useful lives extending beyond the reporting period. As such, intangibles are capital assets and are addressed by the standards for measuring, recognizing, and disclosing capital assets. Statement 51 excludes certain intangibles from its guidance: assets arising from leases, goodwill, and assets acquired or created primarily for the purpose of directly obtaining income or profit.

To qualify as an intangible asset, Statement 51 requires that an asset be *identifiable.* In other word, either the asset is *separable* (meaning it can be separated from the government and sold, transferred, licensed, and so on) or it arises from contractual or other legal rights. Intangible assets are required to be amortized over their useful lives unless they are determined to have an infinite useful life, such as a permanent right-of-way easement.

The questions that would be addressed include:

- What issues have arisen, if any, related the application of the definition of intangible assets? What ongoing questions exist, if any, about what types of assets are included in the scope of Statement 51?
- What issues have arisen, if any, related to the determination of whether an intangible asset is "identifiable" and, therefore, recognizable?

- What issues have governments encountered, if any, in applying the guidance related to internally generated intangible assets? Internally generated computer software?
- What issues have arisen, if any, related to the application of the guidance on amortization? Has the identification of intangible assets with infinite useful lives created any difficulties in practice?
- Do users find the information provided through recognition of intangible assets on the statements of net position valuable?

Reasons for Considering Pre-Agenda Research on This Topic: Statement 51 has been in effect since periods beginning after June 15, 2009.

Since its issuance, the GASB has recorded 165 technical inquiries related to Statement 51. This number has dropped somewhat since the passing of the effective date. The GASB staff has received approximately 11 inquiries a year since 2011.

## Inventory—Reexamination of Statement 62

Objective: The initial objectives of this potential topic would be (1) to consider whether the current literature for inventory remains appropriate for the governmental environment and (2) to determine if additional guidance is warranted. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for inventory.

Description of the Topic: Much of the current accounting literature for inventory was intended for business-type entities; in addition, the sparse accounting literature available for governmental activities was formulated before the advent of government-wide financial statements and the utilization of the economic resources measurement focus. As such, a reexamination of accounting for inventory associated with governmental activities would gauge if the current literature remains appropriate for the governmental environment and, if not, determine if additional guidance is warranted. Inventory guidance has traditionally been based on ARB 43, *Chapter 4—Inventory Pricing*. The relevant parts of ARB 43 were incorporated into the GASB's literature by Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The guidance incorporated by Statement 62 contains the fundamental principles of inventory accounting, such as the definition of inventory and the approaches to valuing it (for instance, lower of cost or market, LIFO, FIFO, and so on). This guidance is limited, however, to use for business-type activities (BTAs). Inventory guidance in the GASB literature for activities other than BTAs consists only of portion of paragraph 73 of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, which allows for a choice between the consumption method (expenditures are reported when inventory is used) and the purchases method (expenditures are reported when inventory is purchased).

During deliberations on Statement 62, several respondents expressed concerns regarding this issue. One noted the need for inventory guidance for governmental activities, citing the lack of literature prescribing a cost-flow assumption when employing the consumption method or holding inventory for use in the provision of services. Another respondent specifically named real estate in default as an example of inventory that would necessarily be accounted for in a governmental fund.

Notwithstanding the consideration given during those deliberations, inventory is an item normally included in governmental funds. As the GASB progresses with its conceptual framework, especially with respect to recognition, it is unknown how or if a new measurement focus and basis of accounting will alter the reporting of inventory in the funds. Furthermore, full implementation of Statement 34 being achieved in 2009, it is unknown how respondents might react to information reported in both the government-wide financial statements and governmental fund financial statements.

The following issues would be addressed:

- Does the present guidance for inventory remain appropriate for both business-type activities and governmental activities?
- Should the Board provide more guidance for selecting a cost-flow assumption? How does the selection of method affect the reporting of cost of services? How have the consumption method and purchase method performed subsequent to implementation of Statement 34?
- Are there certain types of inventory other than supplies that necessitate further guidance, such as real estate in default?
- Might a change in concept or the inclusion of government-wide statements alter the perspective or treatment of inventory for governmental activities?

Reasons for Considering Pre-Agenda Research on This Topic: ARB 43 was issued in 1953. The GASB has never evaluated the effectiveness of these standards. For practical purposes, the guidance incorporated into the GASB literature by Statement 62 was done "as is." Furthermore, this guidance is not strictly applicable to governmental activities, nor is it clearly applicable to certain kinds of inventory held by state and local governments.

The GASAC members ranked the priority of this topic near the bottom of all research activities and potential topics in the past three prioritization discussions.

History:

- Added to the potential topics list: December 2010

## Landfills—Reexamination of Statement 18

Objective: The initial objectives of this potential topic would be (1) to reexamine the reporting requirements of Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, and (2) to consider the need for revisions to existing standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for landfill closure and postclosure care costs.

Description of the Topic: Statement 18 was prompted by the October 9, 1991, U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Facility Criteria," which establishes closure requirements for all municipal solid waste landfills (MSWLFs) that receive solid waste after October 9, 1991. The EPA rule also establishes thirty-year postclosure care requirements for MSWLFs that accept solid waste after October 9, 1993. The effect of the EPA rule and similar state or local laws or regulations is to obligate MSWLF owners and operators to perform certain closing functions and postclosure monitoring and maintenance functions as a condition for the right to operate the MSWLF in the current period.

Statement 18 requires that certain MSWLF closure and postclosure care costs that result in disbursements near or after the date that the MSWLF stops accepting solid waste and during the postclosure period—such as the cost of final cover and subsequent monitoring and maintenance—should be included in the *estimated total current cost of MSWLF closure and postclosure care.* Current cost is defined as the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period. In accrual-basis financial statements, a portion of the estimated total current cost of MSWLF closure and postclosure care is required to be recognized as an expense and as a liability in each period that the MSWLF accepts solid waste.

Technical inquiries regarding Statement 18 are received only sporadically and the number is small—approximately 25 over the past 3 years. The inquiries often involve the staff explaining the basic requirements of Statement 18 rather than interpreting those requirements.

The following issues would be considered:

- Are the requirements of Statement 18 sufficiently meeting the needs of financial statement users?

- Dose the volatility inherent in the measurement requirements of Statement 18 impair the usefulness of landfill data and, if so, what alternative measurement approaches might be appropriate?
- How are governments accounting for landfills that are outside of the scope of Statement 18 (such as hazardous waste landfills)? Would it be appropriate to extend the scope of Statement 18 to those landfills?
- What other types of asset retirement obligations are governments facing? Are the reporting requirements of Statement 18 appropriate for those other obligations?

Reasons for Considering Pre-Agenda Research on This Topic: Statement 18 has been in effect since periods beginning after June 15, 1993, and has not been evaluated since. At the time that the topic leading to Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was added to the GASB agenda, the Board requested that the staff conduct research to determine whether a reexamination of the requirements of Statement 18 also should be included in that topic. In particular, a concern was raised regarding fluctuations in liabilities for landfill closure and postclosure care. Accordingly, in 2002 the staff conducted research on landfill liabilities and related landfill data. The analysis found that information produced in accordance with Statement 18 can be volatile. The Board tentatively decided not to comprehensively reexamine the methodology of Statement 18. Statement 49 did not result in any changes to the requirements for landfills under Statement 18 but did establish a different approach to measuring and reporting costs and obligations than the method in Statement 18. In addition, it should be noted that the Board excluded all landfills from the scope of the Asset Retirement Obligations project so that all landfills could be assessed at the same time.

During their February 2013 meeting, the GASAC members ranked the priority of this topic near the bottom of all research activities and potential topics. It was ranked near the bottom in 2014 and 2015.

History:

- Added to the potential reexamination topics list: December 2008

## Nonexchange Transactions—Reexamination of Statements 33 and 36

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* as amended by Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues,* and (2) to consider the need for revisions to the existing nonexchange transaction standards. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for nonexchange transactions.

Description of the Topic: In nonexchange transactions, a government gives (receives) value without receiving (giving) equal value in return. They are distinguished from exchange transactions, in which there is an equal exchange of value between a government and another party.

The GASB determined specific guidance was necessary for nonexchange transactions during the deliberations that led to Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* The Board believed that guidance was needed for the new government-wide financial statements and more consistency was desired for the existing fund statements. Statement 33 incorporated past research on measurement focus and basis of accounting, grants, state aid, and other projects, and created four categories of nonexchange transactions: (a) derived tax revenues; (b) imposed nonexchange revenues; (c) government-mandated nonexchange revenues; and (d) voluntary nonexchange revenues. Statement 33 primarily addresses the timing of recognition of nonexchange transactions and distinguishes between two types of stipulations on the use of resources (time requirements and purpose restrictions). Permanent endowments, term endowments, contributions of art, promises of donations, applicable period and proration, when claims become enforceable, reimbursements, and revenue recognition were among the most discussed topics.

Accounting for nonexchange transactions continues to be a major category of technical inquiries received by the GASB. When the Statement was first implemented, many inquiries related to (a) changes in the manner in which reimbursements (expenditure-driven grants) were recognized in governmental funds and (b) new requirements to recognize property tax receivables in periods before revenues could be recognized. Currently, inquiries typically involve explaining the provisions of Statement 33, as amended, and how they relate to specific transactions. Some inquiries relate to transactions that are excluded from the scope of Statement 33, such as donated professional services, donated use of facilities, and so forth. Over 160 inquiries have been received in the past three years alone, among the most for any pronouncements not going through its initial implementation period.

The following issues would be considered:

- Are the requirements of Statement 33, as amended, sufficiently meeting the needs of financial statement users?
- Do the requirements result in comparable reporting among governments?
- Are reporting requirements consistent with the conceptual framework that has developed since Statement 33 was issued?
- Are requirements for reporting reimbursement grants and property taxes in governmental funds still considered to be appropriate?
- Should the scope of Statement 33 be expanded to include other nonexchange transactions, such as donated services?
- What clarifications are appropriate to address common areas of misunderstanding? How can the language in Statement 33 be revised to make its provisions easier to understand and apply?

Reasons for Considering Pre-Agenda Research on This Topic: Statement 33 was effective for periods beginning after June 15, 2000. Statement 36, which addressed issues that arose regarding the application of Statement 33, was effective at the same time. Neither has been reexamined since then. The prevalence of nonexchange transactions among state and local governments underscores the foundational importance of these standards. The continuing flow of technical inquiries on nonexchange transactions emphasizes that continuing importance and reflects the complexity of the standards. Research conducted by the staff regarding how the readability and understandability of GASB standards could be improved found that Statement 33 was widely considered the most difficult GASB pronouncement to understand.

An accounting professor conducted research on practice experience with Statement 33 and user needs, with the GASB's support. Surveys of financial statement preparers, auditors, and users were completed in 2013. Statement 33 was examined by the FAF's PIR in 2015 and a final report was issued in November. The PIR concluded that the standards had achieved their purpose.

Currently the IPSASB is reviewing both exchange and non-exchange revenue and expense guidance. After initially considering the application of the new IASB revenue recognition guidance to only exchange revenues, the IPSASB has tentatively decided that this new thinking (basing recognition on the achievement of performance obligations) also should be considered for nonexchange revenues, nonexchange expenses, and current exchange expenses. A due process document on this expanded scope project is expected by the end of 2016 (the GASB staff is assisting in the development of this project).

The topic was ranked in the top 10 research activities and potential topics in the GASAC's annual prioritization for 2011 and 2012 but near the middle in 2013 and 2014. In 2015 it was ranked 11th.

History:

- Added to the potential reexamination topics list: March 2010
- FAF Post-Implementation Review: November 2015

## Nonmonetary Transactions—Reexamination of Statement 62

Objective: The initial objectives of this potential topic would be (1) to consider whether the current literature for nonmonetary transactions remains appropriate for the governmental environment and (2) to determine if additional guidance is warranted. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for nonmonetary transactions.

Description of the Topic: Accounting for nonmonetary transactions historically has been based on APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, which was incorporated into the GASB literature by Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The guidance incorporated by Statement 62 addresses *exchange* transactions that involve little or no monetary assets or liabilities. The basic requirement of Statement 62 is to account for the transaction using fair value. Specifically, the cost of acquiring a nonmonetary asset or liability is the fair value of the nonmonetary asset or liability surrendered to obtain it, not including any related gain or loss on the exchange. (Paragraph 274)

The GASB does not frequently receive technical inquiries related to nonmonetary transactions. As such, it is unknown whether current guidance is sufficient or transactions as such are uncommon.

The following issues would be considered:

- Does the current guidance continue to be appropriate and reflect the governmental environment? Are references to the "earnings process" and "customers" relevant to all of the activities of state and local governments?
- Does fair value continue to be the appropriate measurement basis for nonmonetary transactions? Does the GASB's fair value measurement and application project conflict with this guidance?

Reasons for Considering Pre-Agenda Research on This Topic: APB Opinion 29 was issued in 1973 and has since been superseded. The effectiveness of its provisions and their appropriateness for the governmental environment has never been evaluated by the GASB.

During their 2013–2015 meetings, the GASAC members ranked the priority of this topic at or near the bottom of all research activities and potential topics.

History:

- Added to the potential topics list: December 2010

**Note Disclosures—Statement 38**

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statements No. 38, *Certain Financial Statement Note Disclosures*, and (2) to determine if modifications to the current guidance are warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised financial reporting standards for note disclosures.

Description of the Topic: The initial scope of Statement 38 sought to identify unnecessary and irrelevant disclosures. After focus groups, task forces, and further Board deliberation, the scope of the project expanded to also consider ways to enhance existing disclosures and add disclosures to incomplete areas. In order to not delay Statement 38, the Board removed deposit and investment risk disclosures from the project scope in order to perform adequate additional research. The deposit and investment risk disclosure project resulted in Statement No. 40, *Deposit and Investment Risk Disclosures*.

Statement 38 established or amended requirements for notes to the financial statements relating to interfund balances and transfers, accounts receivable and payable, minimum debt service and lease payment requirements, descriptions of activities accounted for in major funds and internal service and fiduciary fund types, and other issues.

Related to these statements is the FASB's project on Disclosure Framework, which issued an Invitation to Comment with comments received on November 30, 2012; the FASB began discussion of the feedback in January 2013. The FASB's objective is to provide a framework that promotes consistent decisions about disclosures with the hope that a sharper focus on important information will usually result in less voluminous disclosures. The FASB also established the Private Company Council (PCC), which held its inaugural meeting on December 6, 2012. The PCC expects to develop its own decision-making framework.

Note disclosures in general, and deposit and investment risks in particular, have been a fairly common area for questions in the GASB's technical inquiry databases. Nearly 50 inquiries have been documented in the past 6 years. The staff responses to the questions in the databases usually apply or interpret the guidance in the standards to the specific situations in the inquiries and generally do not indicate that provisions of the Statement are unclear, inappropriate, or difficult to apply.

The following issues would be considered:

- Do the required disclosures meet their intended objectives and continue to be relevant, useful, and comprehensive?
- Do governments meet the disclosure requirements consistently over time? How has the ability to meet disclosure requirements been affected by subsequent requirements for notes to the financial statements contained in standards on pensions, other postemployment benefits (OPEB), derivatives, and fund balance reporting and fund type definitions?
- Would it be preferable to continue setting disclosure requirements on a Statement-by-Statement basis or, as the FASB has proposed, create framework criteria for all disclosures? Would the latter approach help to reduce repetition within disclosures and overall CAFR length?
- What unmet user needs exist that might require new note disclosures?

Reasons for Considering Pre-Agenda Research on This Topic: Statement 38 was first effective for periods beginning after June 15, 2001. It has not been reexamined by the GASB.

This Statement addresses a number of very important disclosure requirements and, as such, represent a fundamental component of financial reporting by state and local governments. It encompasses most of the more widely applicable disclosure requirements that are not associated with a broader accounting and financial reporting topic (for instance, pensions, deposit and investment risk, derivatives, asset impairment, municipal bankruptcy, and so on). Other generally applicable note disclosure requirements are found in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, such as capital asset and long-term liability activity during the reporting period. Those disclosure requirements will be reexamined as a part of the pre-agenda research on the Statement 34 financial reporting model.

Specific note disclosure requirements continue to generate a significant number of technical inquiries each year. General concerns also are regularly express to the GASB regarding the volume of note disclosures.

During their February 2013 meeting, the GASAC members ranked the priority of this topic in the top 10 of all research activities and potential topics. It was ranked fourth in 2014 and sixth in 2015.

This topic originally included Statement 40, which was one of two GASB pronouncements (along with Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*) that were reviewed by the Financial Accounting Foundation's Post-Implementation Review (PIR) staff in a report issued in February 2013. The PIR staff concluded that Statement 40 achieved its purpose and provides decision-useful information to creditors and other financial statement users.

History:

- Added to the potential reexamination topic list: December 2010

## **Pollution Remediation Obligations—Reexamination of Statement 49**

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and (2) to determine if modifications to the current guidance are warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised accounting financial reporting standards for pollution remediation obligations. Aspects of scrutiny would include the scope of the Statement, measurement of the obligations, the threshold for recognition, and the extent to which Statement 49 has information that users of governmental financial statements can employ for assessing accountability and making decisions.

Description of the Topic: Congress passed a series of laws in the 1970s regulating the release of pollutants into the environment in response to concerns about the impact of pollution on health, welfare, and the environment. The GASB considered pollution remediation in 1991 while deliberating Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, but decided to consider a more comprehensive project later. In 1996, the AICPA issued SOP 96-1, *Environmental Remediation Liabilities,* to clarify application of FASB Statement No. 5, *Accounting for Contingencies,* to pollution remediation liabilities. However, governments were not included in the scope of SOP 96-1, and GASB research indicated that governments were not applying its guidance.

Pollution remediation was added to the GASB's agenda in 2002 when outreach revealed that some governments had significant obligations for site cleanups and faced issues applying guidance (NCGA Statement No. 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences,* and FASB Statement 5) to those obligations. The scope of the project was narrowed to pollution remediation obligations from there, after the Board decided to defer projects on other environmental issues to a later time.

Statement 49 identifies five specified obligating events that, if occurring, would lead a government to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The liability should be determined using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts—the estimated mean or average.

This following issues would be considered:

- Do the "obligating events" established by the GASB faithfully represent when a liability for a government exists? If not, should a government recognize an obligation sooner or later?
- Does the measurement technique of expected cash flow provide relevant and useful information to users of financial statements? If not, would a different measurement technique (lowest/highest figure in a range, discounted cash flows, and so on) be more appropriate?
- Is further guidance on pollution prevention obligations and other asset retirement obligations warranted? How analogous are these other related areas to pollution remediation?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: Statement 49 was first effective for periods beginning after December 15, 2007. The standards have not yet been reexamined by the GASB. The GASB continues to receive technical inquiries regarding Statement 49—more than 125 in the past three years—even after the initial wave of implementation-related questions had subsided.

Statement 49 is currently being reviewed by the FAF PIR.

In 2013–2015, the GASAC members ranked the priority of this topic near the bottom of all research activities and potential topics.

<u>History</u>:

- Added to the potential reexamination topics list: April 2013.

## **Regulated Operations—Reexamination of Statements 62 and 65**

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of the accounting and financial reporting standards for regulated operations, such as rate-regulated public power utilities, and (2) to determine if additional guidance is warranted. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for regulated operations.

Description of the Topic: Accounting and financial reporting guidance for regulated operations historically has been based on several sources of accounting literature that include but are not limited to FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, FASB Statement No. 90, *Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs*, and FASB Statement No. 101, *Regulated Enterprises—Accounting for the Discontinuation of Application of FASB Statement No. 71*.

This topic would address the key differences between accounting for regulated operations and for other types of governmental entities and consider whether those differences (a) result in a more faithful representation of the economic substance of regulated-operations transactions and (b) lead to the provision of information that is useful for making decisions and assessing accountability. The most notable difference from general accounting guidance is that regulated-operations accounting requires a regulated entity to recognize a regulatory asset (soon to be a deferred inflow of resources) for what would normally be expenses if it is probable that future revenue will result from that cost and that the future revenue will be provided to recover previously incurred costs. Likewise, regulated entities recognize a regulatory liability (soon to be a deferred outflow of resources) if ordered by a regulator to make refunds to customers, or to give back to customers amounts related to gains or reduction in costs the regulator previously allowed the entity to capitalize and report as a regulatory asset.

Much, if not all of the accounting literature previously described has been superseded. Further, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes provisions described in paragraph 7 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, which entities contemplated under relegated operations have conventionally followed. However, Statement 62 does incorporate the applicable portions of FASB Statement 71 into the GASB literature. The effective date for Statement 62 is periods beginning after December 15, 2011.

Guidance on regulated operations was modified again with the issuance of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. However, the effective date for this statement is December 15, 2012, and, therefore, examination of these modifications would be premature. Statement 65 requires that the entity should recognize a deferred outflow of resources in lieu of a regulatory liability, since the resource flows would be applicable to future reporting periods.

The following issues would be addressed:

- To what extent do governments with regulated operations elect to apply these standards? What factors influence their decision?
- In what amounts do governments report regulatory assets and liabilities, and in what proportion to total assets and liabilities?
- Are the requirements for reporting impairments of regulatory assets, and the related requirements of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, understood and applied consistently?
- How have governments reported instances in which accounting for regulated operations has been discontinued?
- What information about regulated operations is disclosed in the notes?
- Is information about regulated operations useful for making decisions and assessing accountability? How is it used?
- Does the practice of recording regulatory assets and liabilities (and, soon, a deferred outflow of resources) accurately portray economic reality? Do they meet the definitions of assets and liabilities in the GASB's conceptual framework? Can the regulatory environment assure the realization of future revenues and require future payments to customers to the extent to justify the recognition of an asset or liability, respectively?
- Are the types regulatory environments researched in 1977, when the project that resulted in FASB Statement 71 was initiated, comparable to regulatory environments today?
- Does the *probable* threshold for this application continue to be appropriate? Is it applied consistently between governments *and* private entities?

- Should allowable costs include a "fair" return on capital or merely allow an entity to break even?

Reasons for Considering Pre-Agenda Research on This Topic: FASB Statement 71 has been in place for 30 years and has not been significantly amended since it was issued in 1982. For practical reasons, the guidance incorporated into the GASB literature by Statement 62 was brought in largely "as is." The Board therefore did not examine the effectiveness FASB Statement 71 or its appropriateness for the governmental environment, other than to confirm that it did not conflict with or contradict other GASB standards.

Instances in which the GASB literature allows for special accounting treatment are relatively rare (for example, hedge accounting for hedging derivative instruments as an exception to the basic requirement to report changes in the fair value of derivatives in investment income). It is important to regularly consider whether the circumstances that originally justified an accounting approach different from general practice continue to exist, and that the key differences in the underlying transactions or events continue to merit a separate accounting approach.

During their February 2013 meeting, the GASAC members ranked the priority of this topic at the bottom of all research activities and potential topics. It was ranked near the bottom in 2014 and 2015.

History:

- Added to the potential topics list: December 2010 (Statement 62) and April 2013 (Statement 65)

# Research and Development—Reexamination of Statement 62

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of the accounting and financial reporting standards for research and development costs, including circumstances in which research and development costs are paid for by others, and (2) to determine if modifications to the current guidance are warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for research and development costs.

Description of the Topic: Research and development guidance historically has been based on FASB Statement No. 68, *Research and Development Arrangements,* which was incorporated into the GASB literature by Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

One reason the FASB issued Statement 68 was due to inconsistent practice. Additionally, the FASB sought to create a distinction between an entity performing research and development on its own and an entity that receives funds from another entity to perform research. Essentially, the scope of Statement 68 encompasses only research and development arrangements that result from exchange transactions.

The guidance incorporated by Statement 62 applies to exchange and exchange-like transactions in which a government "is a party to a research and development arrangement through which it can obtain the results of research and development funded partially or entirely by others." (Paragraph 374) Specifically, Statement 62 contains standards for identifying, measuring, and reporting a government's obligations to repay the funders in part or in full or to provide research and development for others, as well as requirements for disclosure of research and development arrangements.

This following issues would be addressed:

- How prevalent is the reporting of research and development by state and local governmental entities?
- Is there consistent application of the guidance across governmental entities? Does the application by governmental entities maintain comparability with private entities?

- Should there be guidance for research and development associated with a *nonexchange* transaction? How would that guidance differ from Statement 62, if at all?
- Does the *probable* threshold for repayment of funding remain appropriate for recognition? What would the consequences be with other thresholds?

Reasons for Considering Pre-Agenda Research on This Topic: FASB Statement 68 was issued in 1982 and has since been superseded. For practical reasons, the guidance incorporated into the GASB literature by Statement 62 was brought in largely "as is." The Board therefore did not examine the effectiveness FASB Statement 68 or its appropriateness for the governmental environment, other than to confirm that it did not conflict with or contradict other GASB standards. No consideration was given as to if and how the standards might be applicable to nonexchange transactions, which are more prevalent among governmental transactions.

There are few, if any, questions in the GASB's technical inquiry databases related to research and development accounting. The absence of government-specific guidance for research and development is a hole in the GASB's standards, but it is unclear that there is a significant need for prompt standards setting in this area.

During their 2013–2015 meetings, the GASAC members ranked the priority of this topic at or near the bottom of all research activities and potential topics.

History:

- Added to the potential topics list: December 2010

## Right of Offset—Reexamination of Statement 62

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of the accounting and financial reporting standards for the right of offset and (2) to determine if modifications to the current guidance is warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for the right of offset.

Description of the Topic: Right of offset guidance historically has been based on APB Opinion No. 10, *Omnibus Opinion—1966*. This guidance was incorporated into the GASB's literature by Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Offsetting involves the netting of related assets and liabilities and reporting of only the net difference as an asset or liability, rather than reporting the gross amounts for the assets and liabilities separately. Paragraph 501 of Statement 62 prohibits offsetting of assets and liabilities in the government-wide statement of net position and the proprietary funds statement of fund net position, *except where a right of offset exists*. No further guidance is provided regarding the nature of right of offset that a state or local government might hold, nor the approach to accounting for, reporting, or disclosing offset assets and liabilities.

In 1992, the FASB addressed the right of offset in Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts—an interpretation of APB Opinion No. 10 and FASB Statement No. 105,* two years after FASB Statement No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk,* had been issued. FASB Statement 105 addressed disclosure of financial instruments with off-balance sheet risk and concentration of credit risk. FASB Interpretation 39, in general, corroborated the position of APB Opinion 10, stating that offsetting "in the balance sheet is improper except where a right of setoff exists. A *right of setoff* is a debtor's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying against the debt an amount that the other party owes to the debtor."

The following issues would be examined:

- Do the criteria for when a right of offset exists remain appropriate for the present governmental environment?

- Does accounting when the right of offset exists provide a faithful representation of the financial position of the governmental entity?
- What information is most useful to financial statement users—offsetting amounts or gross amounts?
- What is the appropriate scope of offsetting? Should it be limited to short-term receivables and payables or extended longer term elements such as pension plan assets and pension liabilities?
- Does the right of offset affect comparability among governments? Is the economic position of one government with a right of offset significantly different from another government without a right of offset, such that the accounting each uses should be different? Might a user perceive a government with a right of offset to be in better financial health because it appears to have fewer liabilities?
- How might the standards be affected by ongoing deliberations of the FASB and IASB regarding balance sheet offsetting?

Reasons for Considering Pre-Agenda Research on This Topic: APB Opinion 10 was issued over 40 years ago. For practical reasons, the guidance incorporated into the GASB literature by Statement 62 was brought in largely "as is." The Board therefore did not examine the effectiveness the right of offset standards or their appropriateness for the governmental environment, other than to confirm that they did not conflict with or contradict other GASB standards.

APB Opinion 10 was superseded by FASB Statement 105 and FASB Interpretation 39. However, that updated guidance was not incorporated by GASB Statement 62 because it was issued after November 30, 1989.

During their 2013–2015 meetings, the GASAC members ranked the priority of this topic at the bottom of all research activities and potential topics.

History:

- Added to the potential topics list: December 2010

## Sales of Pledges of Receivables and Future Revenues—Reexamination of Statements 48 and 65

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and (2) to determine if modifications to the current guidance are warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for those transactions.

Description of the Topic: Statement 48 was issued in 2006 to provide consistent reporting of transactions in which governments sell accumulated receivables or pledge future revenue streams to repay borrowed amounts. Statement 48 responded to inconsistency in reporting such transactions, most notably reporting as revenue the proceeds of transactions that inherently are borrowings rather than sales.

Statement 48 describes the criteria for distinguishing between the two types of transactions, one of which (sale of receivables) results in the recognition of revenue and the derecognition of the transferred receivables and the other of which (pledging of future revenues) results in the recognition of a liability to repay the proceeds received but no revenue at the time the transaction is initiated. The default presumption of Statement 48 is that such transactions constitute borrowings collateralized by the pledge of a future revenue stream, unless the transaction meets specific criteria based on "an assessment of a government's continuing involvement with the receivables or future revenues transferred. A significant aspect of that assessment is the degree to which the selling/pledging government (the transferor) retains or relinquishes (to the transferee) control over the receivables or future revenues transferred."

The FASB issued its Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*, in 2009, three years after the GASB issued Statement 48, and utilized similar terms to the GASB, such as "surrender[ing] control," "continuing involvement," and "participating interest."

Statement 65 amended Statement 48 by requiring the proceeds of a sale of future revenue to be recognized as a deferred inflow of resources.

The following issues would be examined:

- Was Statement 48 successful in reducing the diversity in reporting sales of pledges of receivables and future revenues?
- Did Statement 48 result in faithful representation of economic substance of transactions by distinguishing between a sale and a collateralized borrowing?
- What impact, if any, might result from the FASB's Revenue Recognition topic, which shifts from a risk-and-reward perspective to a control perspective? Did Statement 48 adequately improve disclosures about pledged revenues? Did it lead to information that is useful for assessing accountability and making decisions?

The provisions of Statement 65 are not effective until periods beginning after December 15, 2012. Consequently, it is too early to assess the impact of its amendments of Statement 48. Ultimately, the topic could consider issues such as whether the switch to reporting deferred inflows of resources affects the comparability of reporting across governments, and if Statement 65 appropriately reflects the concept of interperiod equity with respect to sales of receivables and pledges of future revenues.

Reasons for Considering Pre-Agenda Research on This Topic: Statement 48 became effective for periods beginning after December 15, 2006. The standards have not been reexamined in the period since. During its initial implementation period it was the subject of numerous technical inquiries and continues to generate occasional inquiries. However, the substance of the inquiries does not suggest that there are widespread problems of interpretation of the standards or diversity in practice.

During their 2013–2015 meetings, the GASAC members ranked the priority of this topic at or near the bottom of all research activities and potential topics.

History:

- Added to the potential reexamination topics list: December 2011

## Sales of Real Estate—Reexamination of Statement 62

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of the accounting and financial reporting guidance for sales of real estate, including the recognition of profit or loss on the sale of real estate, and (2) to determine if modifications to the current guidance are warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for sales of real estate.

Description of the Topic: Sales of real estate guidance traditionally has based on FASB Statement No. 66, *Accounting for Sales of Real Estate.* That guidance was incorporated into the GASB literature by Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Present guidance distinguishes between retail land sales and other real estate, and prescribes which method of recognition to utilize given a unique set of circumstances surrounding the particular transaction. In general, the guidance incorporated by Statement 62 requires recognition of a gain associated with the sale of real estate at the time of the sale, provided the collectability of the sale price is reasonably assured and the seller is not obligated to perform significant activities after the sale. Specifically, recognition of the gain should take place only after all four of the following criteria are met:

- A sale is consummated.
- The buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property.
- The seller's receivable is not subject to future subordination.
- The seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property. (Paragraph 286, references omitted)

Statement 62 explains the four criteria in greater detail and stipulates how to account for and report sales in which fewer than all four criteria are met.

The following issues would be examined:

- How frequently do governments engage in sales of real estate? How are the existing standards applied to those transactions?
- Is the guidance appropriate for the governmental environment?
- Is further conceptual guidance needed before standards for the sales of real estate can be readdressed? Does the current guidance for sales of real estate align with the GASB's present conceptual framework projects?
- How might the FASB's Revenue Recognition project—and its proposed move from a "risks-and-rewards" approach to a "control" approach—affect present guidance? The FASB's Revenue Recognition project, essentially, and the GASB currently has recognition on its agenda for its conceptual framework.

Reasons for Considering Pre-Agenda Research on This Topic: FASB Statement 62 was issued in 1982. For practical reasons, the guidance incorporated into the GASB literature by Statement 62 was brought in largely "as is." The Board therefore did not examine the effectiveness of the sales of real estate standards or their appropriateness for the governmental environment, other than to confirm that they did not conflict with or contradict other GASB standards. There are few, if any, questions in the GASB's technical inquiry databases related to this guidance.

During their February 2013 meeting, the GASAC members ranked the priority of this topic in the bottom half of all research activities and potential topics. It was ranked at or near the bottom in 2014 and 2015.

History:

- Added to the potential topics list: December 2010

## **Securities Lending Transactions and Reverse Repurchase Agreements—Reexamination of Statement 28 and Interpretation 3**

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* and Interpretation No. 3, *Financial Reporting for Reverse Repurchase Agreements,* and (2) to determine if modifications to the current guidance are warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for those transactions.

Description of the Topic: A securities lending transaction consists of a governmental entity transferring securities to broker-dealers and other entities for collateral (usually cash, securities, or letters of credit) and simultaneously agreeing to return the collateral for the "same" securities in the future. Governmental entities seek to earn additional income from the securities, and the other entity usually needs to borrow the securities to cover a short position or to avoid failing to receive a security it purchased for delivery to a buyer.

Prior to the issuance of Statement 28, there were no governmental accounting standards addressing securities lending transactions; governments reported the underlying securities on the balance sheet but not the assets and liabilities arising from the lending transactions. During the deliberations on Statement 28, the Board observed no substantive economic difference between a government selling securities under reverse repurchase agreements and lending securities under securities lending arrangements for cash collateral. Although the Board noted differences in legal form, federal tax treatments, and differences in motivation for entering into one transaction over the other, ultimately, both transactions had the same effect on the government. As a result, in addition to governments recognizing the underlying assets on the balance sheet, governments generally should report collateral (cash received and investments made with that cash) as assets along with the resulting liability. Transaction costs should be reported gross as expenses and expenditures.

The GASB issued Interpretation 3 to reconcile several reporting differences between reverse repurchase agreements and securities lending transactions. The Board particularly believed in disclosing information about the maturity matching on reverse repurchase agreements to provide users with liquidity risk information.

In the 2009 Comprehensive Implementation Guide, a new question was added indicating that securities lending collateral should be measured using Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

The major issue to be considered would be whether additional guidance is needed. As part of this issue, the following topics that have been raised through the technical inquiry process would be considered:

- How decision-useful has information about securities lending been subsequent to the implementation of these pronouncements?
- Should the investments purchased with the collateral be reported at fair value? Should the corresponding liability be the same amount as the collateral?
- In a securities lending transaction, if a trust buys and holds the securities purchased with the collateral, but the securities are in the government's name, is there custodial credit risk?
- How does Statement No. 40, *Deposit and Investment Risk Disclosures,* affect securities lending? Are investments purchased with securities lending cash collateral subject to Statement 40 risk disclosures? If so, should the value disclosed be the fair value of the new investment or of the collateral?
- Does the risk of loss referred to in paragraph 9 of Statement 28 relate to the collateral or the lent security?
- Should liabilities resulting from securities lending transactions (paragraph 6) be the same amount as collateral investments, or the amount of collateral that was taken under the agreement?

Issues associated with Interpretation 3 would be:

- Should reverse repurchase agreement reported in an internal investment pool continue to be allocated to the participating funds based on the fund's equity in the pool?
- Should the allocation of investment revenue from reverse repurchase agreements be based on the fund's equity in pool or be based on legal and contractual provisions, if applicable?
- Are the disclosures regarding reverse repurchase agreement required by this Interpretation still decision useful?

Reasons for Considering Pre-Agenda Research on This Topic: Statement 28 and Interpretation 3 have both been in effect since periods beginning after December 15, 1995. Neither has been reexamined in the intervening period. Reverse repurchase agreements and securities lending continue to be prevalent transactions for some governmental entities and remains a regular subject of technical inquiries received by the GASB.

During their 2013–2015 meetings, the GASAC members ranked the priority of this topic in the bottom half of all research activities and potential topics.

History:

- Added to the potential reexamination topics list: December 2008

## Statistical Section—Reexamination of Statement 44

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 44, *Economic Condition Reporting: The Statistical Section* (an amendment of NCGA Statement 1) and (2) to determine if modifications to the current guidance are warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised financial reporting standards for the statistical section.

Description of the Topic: The GASB has had a project on Economic Condition Reporting (originally titled Financial Condition) since the early years of its existence. At that time, the perception of the meaning of "financial condition" and, consequently, the scope of the project were broader than the more commonly used "financial position," but existing standards and concepts statements did not clearly distinguish between the two terms. During its deliberations that ultimately led to the issuance of Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements, the Board* decided that it would be useful to define the terminology more precisely.

The Board eventually settled on the term "economic condition," which was used in the National Council on Governmental Accounting's (NCGA) 1981 Research Report,[3] with a meaning similar to the GASB definition in paragraph 34 of Concepts Statement No. 1, *Objectives of Financial Reporting*. In that paragraph, financial condition is referred to as a government's "financial position and its ability to continue to provide services and meet its obligations as they come due." The definition of economic condition was subsequently developed and revised as the Board proceeded through the development of Concepts Statement 3 and Statement 44, and its present project on financial projections. In December 2011, the Board proposed the following definition in its Preliminary Views, *Economic Condition Reporting: Financial Projections:*

> Economic condition is a composite of a government's financial position, fiscal capacity, and service capacity.
>
> a. Financial position is the status of a government's assets, deferred outflows, liabilities, deferred inflows, and net position, as of a point in time.
> b. Fiscal capacity is the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis.

[3] Allan R. Drebin, James L. Chan, and Lorna C. Ferguson. NCGA Research Report, *Objectives of Accounting and Financial Reporting for Governmental Units: A Research Study*. 1981.

c. Service capacity is the government's ability and willingness to meet its commitments to provide services on an ongoing basis.

Statement 44 was intended to improve the information provided in the statistical section, the standards for which had not been amended since 1979, in order to better equip users to evaluate a government's economic condition. In that vein, Statement 44 incorporated information newly reported due to Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, most notably accrual-basis government-wide information. Statement 44 also reflected significant changes in government finance that had taken place over the prior 25 years, such as the diversification of revenue streams and debt instruments.

The Board chose to limit the scope of Statement 44 to considering the 5 types of information already included in the statistical section—financial trends, revenue capacity, debt capacity, economic and demographic, and operating. Based on NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, the statistical section is one of three required parts of a comprehensive annual financial report (CAFR) and is presented as unaudited supplementary information (SI) following the financial section. Governments that do not prepare a full CAFR are not required to prepare a statistical section. The Board decided not to include within the scope of the project the question of the appropriate communication method for statistical section schedules.

Statement 44 was issued in 2004 and a freestanding Implementation Guide to Statement 44 was published in 2005.

The following issues would be examined:

- Was Statement 44 successful in leading to information that places the basic financial statements, notes to the basic financial statements, and RSI in historical, economic, or operational context? How do users employ this information to evaluate economic condition?
- Are the overarching objectives listed in Statement 44 still appropriate for the governmental environment? Are they meeting the needs of users?
- Do the five types of information identified by Statement 44 comprehensively address the various aspects of economic condition? Is there other information that should be reported among those five types? Are there other types of information that should be included in the statistical section?

- In light of the guidance included in Concepts Statement 3, what communication method is most appropriate for the statistical section—basic financial statements, notes to basic financial statements, RSI, or SI? Rather than considering the statistical section in its entirety, are particular required schedules suitable to communication via different methods?

Reasons for Considering Pre-Agenda Research on This Topic: Statement 44 was effective for periods beginning after June 15, 2005. The requirements for the financial trends schedules were amended by Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. However, the effectiveness of Statement 44 has not yet been evaluated. Statement 44 continues to be the subject of occasional technical inquiries throughout the year—about 20 over the past 3 years.

During their February 2013 meeting, the GASAC members ranked the priority of this topic near the middle of all research activities and potential topics. It was ranked in the top 20 in 2014 and 2015.

History:

- Added to the potential reexamination topics list: December 2011

## Termination Benefits—Reexamination of Statement 47

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of Statement No. 47, *Accounting for Termination Benefits*, and (2) to determine if modifications to the current guidance are warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for termination benefits.

Description of the Topic: Termination benefits are provided (a) to hasten an employee's voluntary termination of services, sometimes referred to as early-retirement incentives, and (b) to terminated employees as a result of involuntary terminations, such as layoffs. Examples of benefits commonly provided as incentives for voluntary terminations include cash payments, enhancements to defined benefit pension or other postemployment benefit (OPEB) formulas, and healthcare coverage when none otherwise would be provided. Examples of benefits provided for involuntary terminations include severance pay, continued access to health insurance through the employer's group insurance plan, career counseling, and outplacement services.

Statement 47 requires that, in financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for *voluntary* termination benefits when the offer is accepted and the amount can be estimated. A liability and expense for *involuntary* termination benefits should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

Healthcare-related termination benefits that are provided as the result of a large-scale, age-related program should be measured at their discounted present values based on projected total claims costs (or age-adjusted premiums approximating claims costs) for terminated employees, with consideration given to the expected future healthcare cost trend rate. Employers that provide other healthcare-related termination benefits are permitted, but not required, to measure the cost of termination benefits based on projected claims costs for terminated employees. That is, in this circumstance, the cost of termination benefits may be based on unadjusted premiums.

The cost of non-healthcare-related termination benefits for which the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates should be measured at the discounted present value of expected future benefit payments (including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits). If, however, the benefit terms do not establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare-related benefits should be calculated as either (a) the discounted present value of expected future benefit payments or (b) the undiscounted total of estimated future benefit payments at current cost levels.

As an exception to these general recognition and measurement requirements, the effects of a termination benefit on an employer's obligations for defined benefit pension or other postemployment benefits should be accounted for and reported under the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as amended, or Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as applicable.

This topic would consider (a) how termination benefits accounting fits into the overall area of compensation accounting and (b) if the measurement method is conceptually sound and comparable to other areas of postemployment benefits.

The following issues will be examined:

- Is Statement 47 successful in providing users with information that can be used for making decisions and assessing accountability?
- Do the allowable measurement methods result in a faithful representation of the termination benefits transaction? Are the recognition criteria still appropriate?
- Are "expected future benefit payments" an appropriate measurement? Would "most likely payments" or "the minimum in a range of payments" be more appropriate?
- Is the estimated yield, over the period of time the benefits are to be provided, on the investments that are expected to be used to finance the payments of the benefits an appropriate choice of rate with which to discount the payments? Should it be consistent and comparable to the new pensions standards or current OPEB standards?
- Are there other areas of compensation for which there is no guidance that the GASB should seek to address in order to provide comprehensive guidance for compensation?

Reasons for Considering Pre-Agenda Research on This Topic: Statement 47 was issued in June 2005 with an effective date for periods beginning after June 15, 2005 (except for termination benefits provided through an existing other postemployment benefits plan, which were to be implemented simultaneously with the implementation of Statement 45). Statement 47 has not been reexamined in the interim.

Termination benefits continue to be a regular transaction among state and local governments. The financial pressures of the recession that began in 2008 may have increased the likelihood that governments will consider termination benefits as one method of reining in costs. The GASB has received about 30 technical inquiries on termination benefits in the last three years.

During their February 2013 meeting, the GASAC members ranked the priority of this topic in the top half of all research activities and potential topics. It was ranked in the middle of all topics in 2014 and in the bottom half in 2015.

History:

- Added to the potential reexamination topics list: December 2011

## Troubled Debt Restructurings—Reexamination of Statement 62

Objective: The initial objective of this potential topic would be (1) to evaluate the effectiveness of the accounting and financial reporting standards for troubled debt restructurings and (2) to determine if modifications to the current guidance are warranted. If modifications to the current guidance are determined to be needed, another objective would be to consider the development of revised accounting and financial reporting standards for troubled debt restructurings.

Description of the Topic: Accounting for troubled debt restructuring has historically been based accounting literature provided by FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*. That guidance was incorporated into the GASB's literature by Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Municipal bankruptcy is not covered within the scope of the troubled debt restructuring standards; that guidance is found in GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

The FASB issued Statement 15 in 1977 in response to a substantial increase in debtors unable to meet their obligations on outstanding debt because of financial difficulties with "many of the most publicized troubled debt restructurings [involving] debtors that are real estate companies or real estate investment trusts." The FASB addressed the topic due to the lack of guidance in authoritative literature at the time.

Statement 62 defines a troubled debt restructuring as a restructuring in which "the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider." (Paragraph 129) In other words, the creditor has agreed or been ordered by law or a court to accept an amount less than it is owed by the debtor or a payment schedule other than originally agreed upon. "[M]any troubled debt restructurings involve modifying terms to reduce or defer cash payments required of the debtor in the near future to help the debtor attempt to improve its financial condition and eventually be able to pay the creditor. Or, for example, the creditor may accept cash, other assets, or an equity interest in the debtor in satisfaction of the debt though the value received is less than the amount of the debt because the creditor concludes that step will maximize recovery of its investment." (Paragraph 129)

Statement 62 provides accounting and financial reporting guidance both for governments that are creditors or debtors. The guidance differs depending on the type of restructuring, including transfer of assets in full settlement, modification of terms, or combinations of the two.

The following issues would be examined:

- What is the most appropriate method of measurement for troubled debt restructurings?
- If there is a substitution of debtors, is there truly a substantive economic event that warrants recognition?
- Is there an economically substantive difference between a troubled debt restructuring and the plan that arises out of a municipal bankruptcy that justifies a different accounting treatment?

Reasons for Considering Pre-Agenda Research on This Topic: FASB Statement 15 was issued 25 years ago. For practical reasons, the guidance incorporated into the GASB literature by Statement 62 was brought in largely “as is.” The Board therefore did not examine the effectiveness of the troubled debt restructuring standards or their appropriateness for the governmental environment, other than to confirm that they did not conflict with or contradict other GASB standards.

The topic was ranked in the top 15 research activities and potential topics in the GASAC’s annual prioritization for 2011–2014, but in the bottom half in 2015.

History:

- Added to the potential topics list: December 2010