GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

TECHNICAL PLAN FOR THE FINAL THIRD OF 2020:

POTENTIAL TOPICS

FAF FINANCIAL ACCOUNTING FOUNDATION

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Potential Standards-Setting Topics

<u>Acquisition of Less-Than-100-Percent Equity Interest in Component Units</u>

<u>Objective</u>: The initial objective of this potential topic would be to research whether to continue to measure statement of net position elements (assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position) at carrying value in the financial statements of a primary government's reporting entity for a component unit in which the primary government has a majority ownership interest. If it is determined that measurement of those elements should be at other than carrying value, the measurement method to apply and whether that measurement method also should be applied to stand-alone financial statements of the component unit would be addressed.

<u>Description of the Topic</u>: 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 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 together with the primary government comprise a financial reporting entity. The measurement of the statement of net position elements 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.

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?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: During initial deliberations on the Equity Interest Ownership Issues project, the Board determined that certain issues related to measurement of the statement of net position elements of a legally separate entity reported as a component unit for which the primary government has acquired a majority ownership interest may be similar to measurement issues in circumstances in which the primary government has acquired 100 percent of a legally separate entity reported as a component unit.

In its first two years of consideration by the GASAC, this topic ranked in the top third of all potential topics and pre-agenda research activities.

<u>History</u>:

- Added to the potential topics list: August 2017

Distributed Water Management Programs

Objective: The initial objectives of this potential topic would be (1) to identify the features of various distributed water management programs that are being employed by governments at present, in particular the financing of decentralized actions taken by entities external to the government, and (2) to consider whether existing accounting standards are applicable to those transactions or if new guidance should be developed. If additional guidance is determined to be needed, another objective would be to consider the development of accounting and financial reporting standards for distributed water management programs.

Description of Topic: Distributed water management broadly refers to planning, design, and water management activities, both centralized (performed by the water utility) and decentralized (performed by customers and others external to the utility). Programs involving decentralized activities often take the form of a utility providing incentives to install water-saving devices such as water-efficient appliances, low-water-use landscaping, and greywater reuse systems. In some cases, the incentives cover the entire cost of installation. Some utilities pay for the incentives using existing resources and others finance them by issuing long-term debt.

The relevant standards are apparent for (1) construction of new capital assets by a utility as part of those programs and (2) upgrades to a utility's existing capital assets. However, it may be unclear what standards should be applied to transactions that involve incurring costs for decentralized activities, particularly those that involve borrowing.

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

- Are utilities accounting for and reporting those transactions in conformity with existing standards? If not, what accounting and reporting practices are they following?
- What types of decentralized activities, if any, might result in the reporting of capital assets?
- Under what circumstances, if any, would it be appropriate for a utility to report a regulatory asset related to those transactions?
- What specific user information needs exist with respect to those transactions?

Reasons for Considering Pre-Agenda Research on This Topic: The GASB has received questions from stakeholders regarding the applicability of existing standards to programs that involve the financing of water-saving actions taken by customers and others external to a utility. In January 2017, the GASB received a request from a stakeholder organization to provide guidance for those transactions in the next update of the GASB's Implementation Guidance. However, addressing this topic may require establishing new standards or revising existing standards (Category A authoritative guidance), rather than only providing implementation guidance (Category B authoritative guidance). Pre-agenda research would be necessary to resolve that question and to collect the information required to develop new or revised standards, if necessary.

GASAC members ranked the topic in the middle third of all potential topics and pre-agenda research activities in 2017–2019.

History:

- Added to the potential topics list: February 2017

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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. California implemented a trading program with the Global Warming Solutions Act of 2006 (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. That 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 (1) governments that administer those programs and (2) governments that hold credits as a result of exchange and nonexchange transactions involving those programs?
- How should those credits be measured by (1) governments that administer those programs or (2) governments that hold credits as a result of exchange and nonexchange transactions involving those 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 those programs?

Reasons for Considering Pre-Agenda Research on This Topic: Those programs have been identified in several areas of the country and potentially could significantly expand. The GASB has received inquiries regarding the appropriate accounting and financial reporting for programs that are in place and for programs that are being considered. For programs administered by governments, specific guidance does not identify the point at which the rights associated with those 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 an exchange or nonexchange transaction.

This topic was brought to the attention of the GASB through a constituent request that the Board consider setting standards for emission trading transactions. GASAC members ranked the topic in the top third of all pre-agenda research activities and potential topics in 2016 and in the middle third in 2017–2019.

The International Public Sector Accounting Standards Board (IPSASB) began discussions on its emissions trading schemes research project in June 2015. In March 2016, the IPSASB decided to defer further work on the project pending further progress on the IASB project.

History:

- Added to the potential topics list: April 2013

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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 those 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.

The following issues would be considered:

- 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 a 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 project that led to Statement No. 72, *Fair Measurement and Application*. The FASB issued ASU No. 2016-3, *Financial Instruments—Credit Loses (Topic 326)* in June 2016. In July 2016, the IPSASB issued *Impairment of Revalued Assets*, which amended IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*. Considering the new standards on this topic by other standards setters and the potential range of assets that could be affected, it merits its own potential standards-setting topic apart from a reexamination of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

As noted above, there is reference to impairment of noncapital assets in Statements 31, 53, and 62. Those 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.

In its first four years of consideration, the GASAC members ranked this topic in the bottom third of all pre-agenda research activities and potential topics. In 2017, it was ranked in the top third and in 2018–2019 it was in the middle third.

History:

- Added to the potential topics list: April 2013

In-Kind Contributions, Contributed Services, and Nonmonetary Interlocal Agreements

Objective: The initial objectives of this potential topic would be (1) to identify the various types of nonmonetary transactions (other than capital) that involve in-kind contributions, contributed services, and nonmonetary interlocal agreements, currently received and provided by state and local governments, and (2) to determine whether existing standards are sufficient or additional guidance needs to be developed for those transactions. 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 those types of contributions and nonmonetary interlocal agreements.

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 or contributed services?
- What types of cooperative agreements between governments should be considered nonmonetary interlocal agreements?
- Should in-kind contributions, contributed services, and nonmonetary interlocal agreements be recognized in the financial statements or disclosed in the notes to the financial statements?
- How should in-kind contributions, contributed services, and nonmonetary interlocal agreements 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."*

During the Revenue and Expense Recognition project, the Board became aware of the existence of cooperative arrangements between governments in which both parties to the transaction provide services to each other's jurisdiction, but without exchanging any monetary payments. An objective of research on this topic would be to identify the prevalence and the impact of those types of interlocal agreements.

History:

- Added to research topics: December 2002
- Transferred to the potential topics list: January 2006
- Incorporated into Revenue and Expense Recognition project: December 2016
- Transferred to potential topics list and broadened to include contributed services and nonmonetary interlocal agreements: July 2019

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 what type of guidance should be issued regarding the preparation of popular reports to the citizenry and developing that guidance.

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 (GPEFR) that are separate from GPEFRs that contain the basic financial statements, notes to basic financial statements, and supporting information. This topic would consider 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, based on discussions with preparers about the content and presentation of the reports. The report provided a prototype of what the researchers believed to be a highly effective type of reporting.

The following issues would be considered:

- 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 routinely prepare popular reports for use by their citizens, particularly relatively larger governments. Prior research by two academics that received one of the GASB's 2011 Gil 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 ranked in the top third of all pre-agenda research activities and potential topics in the GASAC's 2015–2019 prioritization discussions.

History:

- Transferred to the potential topics list: January 2006

Postemployment Benefit Plans—Reporting Investments in Master Trusts

Objectives: The initial objectives of this potential topic would be (1) to review how pension and other postemployment benefit (OPEB) plans have measured and reported investments in master trusts and (2) to identify the information needs of users pertaining to a pension or OPEB plan's investments in master trusts. The research would collect the information necessary for the Board to determine whether additional guidance is needed and, if so, to develop financial reporting standards to address those needs.

Description of the Topic: Existing GASB standards require disclosure of information about the investments of postemployment benefit plans; however, concerns have been raised that those requirements do not specifically address investments in master trusts. As a result, there may be variation in how those investments are displayed on the face of the financial statements and disclosed in the notes to financial statements. In November 2016, the FASB ratified consensuses of its Emerging Issues Task Force related to investments in master trusts. Those consensuses specifically address financial statement presentation of investments in master trusts and require certain disclosures related to those investments.

The following issues would be considered:

- How are postemployment benefit plans currently reporting their investments in master trusts? How do they measure those investments for accounting and financial reporting purposes?
- Is plan reporting of those investments consistent with the requirements of Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* as amended; *No. 67, Financial Reporting for Pension Plans; No. 72, Fair Value Measurement and Application; and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans?*
- What specific user needs exist regarding a postemployment benefit plan's investment in a master trust?

Reasons for Considering Pre-Agenda Research on This Topic: A GASAC member identified this topic as an emerging issue that may require the GASB's attention. The GASAC member expressed concerns about a lack of consistency in practice regarding how those investments are presented in the financial statements and disclosed in the notes. In 2017–2019, this topic ranked in the middle third of all potential topics and pre-agenda research activities in the GASAC's prioritization discussion.

History:

- Added to the potential topics list: February 2017

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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 governments 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 those 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.

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 Statement No. 83. *Certain Asset Retirement Obligations*.

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 ranked in the middle third of all pre-agenda research activities and potential topics in the GASAC members' 2017 and 2019 annual prioritization discussions, and in the bottom third in 2018.

History:

- Transferred to the potential topics list: January 2006.

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Reporting Unit Presentations

Objective: The 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 those 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 2016 edition of the AICPA audit guide for state and local governments addresses individual fund, departmental, and agency reporting in five paragraphs (which were 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 departmental [agency, program] financial statements, 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 departmental [agency, program] financial statements, the auditor considers whether the financial statements include all relevant GAAP financial statements, note disclosures, MD&A topics, and other RSI topics.

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.

The following issues would be considered:

- 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 would that guidance be?
- Should guidance be developed for financial reports that cover just a part of a fund?
- Should there be agency- or department-wide financial statements to accompany the financial statements that present the funds that comprise the agency or department?
- How should specific assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 currently is diversity in practice in 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 management's discussion and analysis (MD&A) be considered required supplementary information (RSI)?
- 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, or transfers from other funds within the primary government) be classified?
- Which notes to the financial statements and RSI that are normally presented for the primary government as a whole should be presented by a reporting unit?

Reasons for Considering Pre-Agenda Research on This Topic: 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 has ranked in the top third of all pre-agenda research activities and potential topics during the GASAC's discussion of technical plan priorities since 2011.

History:

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

Revenue Recognition—Revenue from Gaming Activities

Objectives: The initial objectives of this potential topic would be (1) to review any proposed changes to the American Institute of CPAs' (AICPA) *Auditing and Accounting Guide: Gaming* (Gaming Guide) with respect to revenue recognition for gaming activities and (2) to identify any necessary updates to GASB authoritative guidance. The research would collect the information necessary for the Board to evaluate the updates proposed for the Gaming Guide and to determine whether separate GASB standards would be necessary for recognition of revenue from gaming activities.

Description of the Topic: The AICPA's Gaming Entities Revenue Recognition Task Force is reviewing FASB Accounting Standards Codification© (ASC) Topic 606, *Revenue from Contracts with Customers,* to determine what revisions need to be made to the Gaming Guide. Gaming entities—including those owned by governments—currently refer to the Gaming Guide for revenue recognition guidance. However, ASC Topic 606 is not applicable to governments. Under GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* the Board reviews and clears for issuance AICPA literature that is specifically made applicable to governments.

The following issues would be considered:

- Should the updates to the AICPA Gaming Guide be cleared by the GASB and codified as Category B authoritative guidance?
- Should the current AICPA Gaming Guide that has been cleared by the GASB be eliminated pending the outcome of the GASB's Revenue and Expense Recognition project?
- What effect would the tentative models being developed in the GASB's Revenue and Expense Recognition project have on revenue recognition for gaming activities?
- Is there a need for separate GASB guidance addressing revenue recognition for gaming activities?

Reasons for Considering Pre-Agenda Research on This Topic: A GASAC member raised concerns regarding potential revisions to the AICPA Gaming Guide and whether they would become Category B authoritative guidance that is applicable to governmental entities with gaming operations. As of February 2017, the AICPA Task Force had identified 12 potential issues related to revenue recognition implementation, including issues related to progressive jackpots and loyalty programs.

This topic ranked in the bottom third of all pre-agenda research activities and potential topics during the GASAC's 2017 and 2018 discussions of technical plan priorities and in the middle third in 2019.

History:

- Added to the potential topics list: February 2017

Social Security Disclosures

Objectives: The initial objective of this potential 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 expressed interest in comparing the total cost to state and local governments of compensation received by employees of state and local governments. Components of that 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. (Governments do not have to participate in Social Security, and many do not.) The stakeholder indicated that the absence of information about participation in the Social Security program makes those cost comparisons difficult.

The following issues would be considered:

- 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* (which led to Statement 73) expressed concerns about the ability to make comparisons about pensions because of the lack of information about the participation of employers in the Social Security program. That 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 Exposure Draft that led to Statement No. 82, *Pension Issues*.

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 2015–2018, GASAC members ranked this potential topic in the middle third of all pre-agenda research activities and potential topics, and in the top third in 2019.

History:

- Added to the potential topics list: December 2014

Potential Reexamination Topics

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, 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 114 technical inquiries regarding capital asset impairment during the past 10 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 one or more of the inputs to the measurement? How should the amount of asset impairment be determined 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. Those 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*.

The FAF's Post-Implementation Review published the results of its examination of Statement 42 in August 2014.

GASAC members ranked the priority of this topic in the middle third of all pre-agenda research activities and potential topics in 2015–2018 and in the bottom third in 2019.

History:

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

Certain Interfund Transactions—Reexamination of Statements 34 and 38

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of existing standards with respect to certain transactions between funds and (2) to consider the need for revisions 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 for those interfund transactions.

Description of Topic: Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* makes a clear distinction between interfund transfers and interfund loans. Paragraph 112 states that amounts provided by one fund to another with the expectation of repayment should be reported as interfund loans, with an interfund receivable in the lender fund and an interfund payable in the borrower fund. However, the paragraph clarifies that if repayment is not expected within a reasonable time, the transaction should be reclassified as a transfer and the receivables and payables eliminated. All other interfund resource flows without an equivalent return flow of resources or requirement for repayment should be reported as interfund transfers.

Statement No. 38, *Certain Financial Statement Note Disclosures,* requires disclosure of greater detail of interfund balances and interfund transfers beneath the aggregated amounts on the face of the financial statements. Governments also are required to disclose the purposes of interfund balances and transfers, amounts of interfund balances not expected to be repaid within a year, and the purposes of transfers that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer. NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* as amended by Statement 38, requires disclosure of violations of finance-related legal and contractual provisions, as well as actions taken to resolve them, which could be applicable to some of those nonroutine or inconsistent interfund transfers. All of those disclosures are among those included in the ongoing pre-agenda research reexamining note disclosure requirements.

The following issues would be considered:

- Are governments appropriately applying the existing standards distinguishing between interfund loans and transfers? What types of interfund transactions, if any, are not being appropriately reported? Have governments known to have made transfers that violate legal or contractual provisions disclosed the violations appropriately?
- How are governments reporting transactions in which temporarily available cash is loaned from one fund to another (for example, to allow the other fund to invest the cash short-term to generate income for the other fund's purpose, before returning the cash to the lender fund)?
- How do users view the distinction between interfund loans and transfers? What information do they need regarding those transactions?

Reasons for Considering Pre-Agenda Research on This Topic: A member of the GASAC identified the short-term interfund loans described above, and others mentioned developments in interfund activity by governments, as emerging issues that may require the GASB's attention. Those members are concerned that existing standards do not result in governments appropriately reporting some of their interfund activities in the financial statements and notes. GASAC members ranked the topic in the top third of all potential topics and research activities in 2017 and 2019, and in the bottom third in 2018.

History:

- Added to the potential reexamination topics list: February 2017

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 following issues would be considered:

- Do the existing standards 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 those types of payment provisions?
- Should professional fees and other costs associated with a 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?

Reasons for Considering Pre-Agenda Research on This Topic: The number of governments filing for Chapter 9 bankruptcy increased notably during the recession that began 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. Pre-agenda research on this topic 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 appropriately addresses 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 fewer than 20 technical inquiries related to Statement 58 and only 2 since 2017.

During their 2016 meeting, the GASAC members ranked the priority of this topic in the middle third of all research activities and potential topics. It ranked in the bottom third in 2017–2019.

History:

- Added to the potential reexamination topics list: April 2016

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) reacquisition 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 under operating leases, other than initial direct costs, 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…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.

GASAC members have ranked the priority of this topic in the bottom third of all research activities and potential topics in 2014–2019.

History:

- Added to the potential reexamination topics list: December 2010

Deferrals—Reexamination of Statements 63 and 65

Objective: The initial objective of this potential topic would be (1) to evaluate the effectiveness of the existing standards related to the recognition and presentation of deferred outflows of resources and deferred inflows of resources and (2) to consider the need for revisions 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 for deferrals.

Description of the Topic: Deferred outflows of resources and deferred inflows of resources (hereinafter referred to jointly as deferrals) are two of the five elements (along with assets, liabilities, and net position) of a statement of financial position identified in paragraphs 32–35 of Concept Statement No. 4, *Elements of Financial Statements*.

> **Deferred Outflows of Resources**
>
> A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period.
>
> A deferred outflow of resources is reported in a statement of financial position. The meaning of the inherent characteristic of consumption of net assets by the government is the same as that characteristic discussed above under outflows of resources. The inherent characteristic of being applicable to a future reporting period is similar to the characteristic of applicable to the reporting period discussed above under outflows of resources with one important exception. For a deferred outflow of resources, the outflow is applicable to a future reporting period rather than to the current reporting period.
>
> **Deferred Inflows of Resources**
>
> A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period.
>
> A deferred inflow of resources is reported in a statement of financial position. The meaning of the inherent characteristic of acquisition of net assets by the government is the same as that discussed above under *inflows of resources*. The inherent characteristic of being applicable to a future reporting period is similar to the characteristic of applicable to the reporting period discussed above under *outflows of resources* and *inflows of resources* with one important exception. For a deferred inflow of resources, the inflow is applicable to a future reporting period rather than to the current reporting period.

At the time Concepts Statement 4 was issued, in June 2007, deferrals were conceptually new and, therefore, not required by any existing GASB standards. The Board concluded that certain items then-reported as assets and liabilities met the definitions of deferred outflows of resources and deferred inflows of resources, respectively. However, the Board advised in Concepts Statement 4 that, "Recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances identified by the GASB in authoritative pronouncements, which are established after applicable due process procedures."

One year later, the Board approved Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* the first standards that required the reporting of deferrals. Statement 53, as amended, requires that changes in the fair value of hedging derivative instrument should be reported as deferrals, rather than reported in investment income. Statement 53 was effective for periods beginning after June 15, 2009.

The Board then issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (SCAs), in November 2010. Statement 60 was effective for periods beginning after December 15, 2011, and requires that a transferor government that receives an up-front payment in an SCA should report:

> . . . (a) the up-front payment . . . as an asset, (b) any contractual obligations as liabilities, and (c) related deferred inflow of resources equal to the difference between (a) and (b). Revenue should be recognized as the deferred inflow of resources is reduced. This revenue should be recognized in a systematic and rational manner over the term of the arrangement. . .

Although those two Statements required the recognition of deferrals, no guidance yet existed regarding how recognized deferrals should be reported in the financial statements. The Board provided that guidance in Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which requires deferrals to be reported separately from assets and liabilities in statements of financial position.

To address the reporting of assets and liabilities that did not meet the definitions of those elements in Concepts Statement 4, the Board reviewed all items that were then-required to be recognized as assets and liabilities in the context of the definitions of financial statement elements. As a result of that evaluation, Statement No. 65, *Items Previously Reported as Assets and Liabilities,* required that certain items henceforth be reported as deferrals or, in some cases, current-period inflows and outflows of resources. Among the items formerly reported as assets and liabilities that now are required to be reported as deferrals are:

- In a debt refunding that results in defeasance of debt, the difference between the reacquisition price and the net carrying among of the defeased debt
- Property taxes received or receivable prior to the period for which they were levied
- Grants provided or received after all eligibility requirements have been met except time requirements
- The proceeds of a sale of future revenues
- Unavailable revenue in governmental funds.

In the period since the issuance of Statement 65, the reporting of deferrals was most significantly affected by the revised standards for employer reporting of pensions and other postemployment benefits (OPEB)—Statement No. 68, *Accounting and Financial Reporting for Pensions,* Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Those standards require that certain sources of changes in the net pension liability and net OPEB liability initially be recognized as deferrals and introduced into expense over multiple years, including:

- Differences between assumed and actual economic and demographic factors (experience gains and losses)
- Differences between expected and actual earnings on plan assets
- Changes in economic and demographic assumptions
- Differences between assumed and actual proportions for governments in multiple-employer cost-sharing plans and nonemployer contributing entities
- Changes in assumptions regarding those proportions.

The following issues would be considered in a review of the standards for deferrals:

- How often do governments report the various types of deferrals and in what amounts?
- Do governments report deferrals on the face of their statements of financial position by type or in the aggregate? If the latter, in what manner do they disclose the types of deferrals?
- What practical issues, if any, have governments and their auditors encountered in applying the reporting standards in Statement 63?
- What difficulties have governments and their auditors had in accounting for and reporting deferrals required by Statement 65 for specific transactions, if any?
- How has the ability to assess interperiod equity been affected by the introduction of deferral reporting, if at all?
- How is information about deferrals used for making decisions and assessing government accountability?
- Is the usefulness of information reported about types of deferrals affected by a government's decision to display or disclose that information?
- What other information, if any, do users need regarding deferrals?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: The identification of deferrals as separate financial statement elements in Concepts Statement 4 distinguishes the GASB conceptual framework from that of other standards setters. In the view of the Board, reporting consumptions and acquisitions of net assets related to future periods apart from assets and liabilities is crucial to providing information for assessing *interperiod equity* (a key objective of financial reporting by state and local governments). The evaluation of whether a government's current-period inflows of resources are sufficient to cover its costs for that period historically was hindered because resource flows related to future periods that could not be distinguished from those of the current period.

As with other fundamental changes in financial reporting, the transition to reporting deferrals resulted in some confusion among stakeholders of all types. However, the unfamiliarity of deferrals added a layer of confusion beyond that typically encountered when new standards are implemented. Between 2011 and 2016, the GASB received an average of close to 70 technical inquiries per year on deferrals. Relatively few technical inquiries about deferrals are received by the GASB at this time—10 per year since 2017.

A small minority of governments are parties to hedging derivative instruments and even fewer have SCAs. Consequently, governments initially reported few deferrals (primarily for governmental fund inflows of resources that were not considered to be available) and the dollar amounts generally were minimal. Deferral reporting proliferated in number, type, and size, however, with the implementation of the pension and OPEB standards between 2015 and 2018, renewing the attention paid to deferrals in general.

History:

- Added to the potential reexamination topics list: January 2020

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 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 of 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, the derivative 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 new swap agreements. Under Statement 53, a government 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 following issues would be addressed considered:

- Statement 53 defines derivative instruments. Does that definition adequately address the financial instruments that governments are currently entering?
- Statement 53 excludes certain derivative instruments from its scope and excludes certain derivative instruments from being reported at fair value. Do those exclusions continue to be appropriate?
- 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 53 provides specific methods of evaluating hedge effectiveness. Are those methods being applied as intended? Are the parameters for those methods set appropriately? Are there other methods that should be addressed?
- Do Statement 53's disclosures meet the needs of users?
- Statement 64 provides an exception to Statement 53's termination of hedges guidance. Have there been changes in the economic environment such that the exception is no longer appropriate? Alternatively, 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.

Practice continues to evolve. Significant portions of the GASB literature on derivative instrument accounting is based on the London Interbank Offered Rate (LIBOR). Portions include the authoritative text and most illustrations. With the coming termination of LIBOR, replacement of that material will become necessary. Replacement rates and indexes are being developed.

Since its issuance, the GASB has recorded more than 630 technical inquiries related to Statement 53. That number has dropped somewhat since the passing of the effective date. GASB staff members have received an average of seven inquiries a year since 2017.

In 2019, the members of the GASAC ranked the topic in the top third of all potential standards-setting topics and pre-agenda research activities. In 2016, they ranked it in the middle third, and in 2017 and 2018 in the bottom third.

History:

- Added to the potential reexamination topics list: April 2016

Financial Reporting Entity—Reexamination of Statements 14, 39, 61, 80, and 90

Objective: The initial objective of this potential topic would be (1) to evaluate the effectiveness of the body of standards related to the financial reporting entity and (2) to consider the need for revisions 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 for the financial reporting entity.

Description of the Topic: The financial reporting entity constitutes the organizations and operations that are encompassed within a government's basic financial statements—the primary government and its component units. The GASB's initial guidance on what constitutes a component unit and how it should be presented in the financial statements was set forth in 1991 in Statement No. 14, *The Financial Reporting Entity*. Statement 14 subsequently was amended by Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* principally to address not-for-profit entities such as fundraising and research foundations.

The effectiveness of those standards was evaluated in a project that resulted in the issuance in 2010 of Statement No. 61, *The Financial Reporting Entity: Omnibus*. However, the financial reporting entity standards also were amended in part by Statement No. 80, *Blending Requirements for Certain Component Units,* Statement No. 84, *Fiduciary Activities*, and Statement No. 90, *Majority Equity Interests*.

The financial reporting entity standards identify which legally separate entities a primary government should include as its component units based primarily on accountability, particularly financial accountability. The inclusion of component units in the financial reporting entity is intended to enable a government to comprehensively demonstrate its accountability through its external financial reporting, as opposed to being a representation of a single legal entity that constitutes "the government." Entities that typically are component units (and often are primary governments themselves that issue their own financial statements) include public colleges and universities, economic development corporations, housing and transportation authorities, utilities, and employee retirement systems. Component units that are governmental entities may have component units of their own, such as a state university's fundraising organizations and research foundations.

A primary government should include a legally separate entity as a component unit if one or more of the following conditions are met:

- The primary government is financially accounting for the entity, meaning that one or more of the following are true:
  - The primary government appoints a majority of the entity's governing body and can impose its will on the entity.
  - The entity is fiscally dependent on the primary government and there is a financial benefit or financial burden relationship between them.
  - The primary government holds a majority equity interest in the entity that does not meet the definition of an investment.

- The resources of the entity are entirely for the direct benefit of the primary government or the primary government's other component units or constituents; the primary government or its other component units can access or entitled to a majority of the entity's resources; and those resources are significant to the primary government.
- It would be misleading to exclude the entity; in other words, leaving the entity out would cause the government's reporting entity financial statements to be misleading.

Imposition of will means that the primary government can significantly influence the programs, projects, activities, or level of services the entity performs or provides.[1] That could entail, for example, the ability of the primary government to (1) remove at will appointed members of the entity's governing body, (2) modify or approve the entity's budget or rates and fees, (3) override or modify decisions of the entity's governing body, or (4) hire or fire the entity's management. An entity is fiscally dependent on a primary government if needs the primary government's approval to establish or modify its budget, levy taxes or set rates or charges, or issue bonded debt.

A significant aspect of the modifications introduced by Statement 61 to the financial reporting entity standards was an emphasis that certain circumstances that previously led treating an entity as a component unit were, by themselves, insufficient to indicate that a primary government was financial accountable for the entity without the existence of a financial benefit/burden relationship between them. A financial burden exists, for example, if the primary government is legally obligated or has otherwise assumed the obligation to finance the entity's deficits, debt, or postemployment benefit obligations. An entity can provide a financial benefit to the primary government if, for instance, the latter is legally entitled to or can otherwise access the entity's resources, as in the case of certain fundraising organizations of public colleges and universities.

In general, component units are discretely presented in the primary government's financial statements—that is, in one or more columns separate from the information for the primary government. Under certain circumstances, however, a component unit's information should be blended into the primary government column(s):

- The governing bodies of the primary government and the component unit are substantively the same, there is a financial benefit/burden relationship between them, the primary government has operational responsibility for the component unit (effectively, it operates the entity in a manner similar to one of its departments or agencies).
- The component unit provides services entirely or almost entirely to primary government.
- The component unit exclusively or almost exclusively benefits primary government but does not provide services to primary government.
- The component unit's outstanding debt is expected to be repaid entirely or almost entirely by resources of primary government.

[1] As part of its project addressing certain component unit criteria and Section 457 plans, the Board currently is examining how the component unit criteria apply to certain types of postemployment benefit plans.

- The component unit is a not-for-profit corporation in which the primary government is the sole corporate member.

A government's major component units, if not presented in separate columns on the face of the government-wide financial statements (generally, they are aggregated in a single column), should be presented either in combining financial statements following the primary government's basic financial statements or disclosed in condensed financial statements in notes to financial statements.[2] In notes to financial statements, governments should briefly describe their component units and how they relate to the primary government, including the reason they were included as component units and how they are reported (discretely presented, blended, or in the fiduciary fund financial statements). The notes also should indicate how the separately issued financial statements of the component units may be obtained.

The financial reporting entity standards also address other types of legally separate entities in which state and local governments participate—joint ventures and jointly governed organizations. Both arrangements involve the primary government and one or more other entities (typically other governments) entering into a contractual agreement to create, fund, and corporately control an organization for the purpose of providing services to the participating entities or their constituents. They differ in that the participating entities in a joint venture retain an ongoing financial interest in or responsibility for the organization, whereas they do not in a jointly governed organization. If a government has an equity interest in a joint venture, it should report that interest as an asset. Otherwise, the standards generally are limited to required disclosures.

The following issues would be considered:

- How prevalent is the reporting of component units among governments of various types and sizes? For what reasons are entities included as component units?
- How prevalent is the blended presentation of component units among governments of various types and sizes? For what reasons are component units blended?
- Do the existing standards result in governments including as component units the legally separate entities that should be included in their financial reporting entities? To what extent do governments include entities that do not meet the definition of a component unit?
- Do the existing standard result in governments blending component units with the primary government that should be blended? To what extent do governments blend component units that should be presented discretely?
- What difficulties do governments and their auditors have, if any, in determining whether an entity is a component unit? What difficulties do they have, if any, in determining whether a component unit should be blended or discretely presented?
- How useful are the required disclosures about component units to decision making and assessments of accountability?

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[2] In its Financial Reporting Model Reexamination project, the Board has proposed eliminating disclosure of condensed financial statements as an alternative to combining financial statements.

- How frequently do governments report participation in joint ventures or jointly governed organizations? What types of services do those organizations provide and how significant are they to the participating governments?
- What difficulties do governments and their auditors have, if any, in determining whether an organization should be treated as a joint venture or joint governed organization?
- How useful is the information governments disclose about joint ventures, and jointly governed organizations to decision making and assessments of accountability?

Reasons for Considering Pre-Agenda Research on This Topic: The financial reporting entity standards are a major component of generally accepted accounting principles (GAAP), such that they read like a combination of conceptual framework and financial reporting standards. They are a fundamental building block for external financial reporting, like the standards related to the financial reporting model. Standards of such importance should be regularly monitored and, when appropriate, reexamined to ensure that they continue to reflect the evolving structures of governmental entities and the governmental environment.

The standards for the reporting entity affect all state and local governments that follow GAAP. They are relatively complex guidance in that they contain multiple overlapping criteria both for identifying entities that are component units and determining how those component units should be presented in the primary government's financial statements. Unsurprisingly, the GASB receives a significant number of technical inquiries related to those standards—an average of 55 per year, comprising 30 on component unit reporting, 9 on the definition of component units, 11 on the reporting entity in general, and over 4 on joint ventures and jointly governed organizations.

History:

- Added to the potential reexamination topics list: January 2020

Fund Balance—Reexamination of Statement 54

Objective: The initial objective of this potential topic would be to consider the need for revisions to Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. If additional guidance is determined to be needed, another objective would be to consider the development of revised accounting and financial reporting for fund balance.

Description of Topic: Statement 54 replaced the long-standing reserved and unreserved categories of fund balance with five classifications that more clearly identified the degree to which a government is bound by the limitations placed on the resources reported in governmental funds. The new classifications—nonspendable, restricted, committed, assigned, and unassigned fund balance—should be applied consistently across fund types. That represented a change from previous standards, under which the determination of whether fund balance was reserved depended, in part, on the nature and breadth of the limitation on use compared with the overall purposes of the fund.

Statement 54 also clarified the definitions of governmental fund types. Particular attention was given to special revenue funds to address inconsistencies in practice that had developed as a result of confusion about certain aspects of the definition of that fund type. Statement 54 clarified that special revenue funds should be established only around revenue sources that are restricted or committed to specified purposes—other than debt service or capital projects—and that continue to represent a substantial portion of the inflows of the fund.

Disclosures required by Statement 54 include the following:

- Fund balance-related policies, such as the actions that result in committed and assigned fund balance and the order of spending priority between restricted and unrestricted fund balance, as well as between committed, assigned, and unassigned within restricted fund balance
- Required detail within the classifications of fund balance, if not shown on the face of the balance sheet
- Information about stabilization arrangements (rainy day funds)—such as the amount of fund balance included in such arrangements and the circumstances under which resources are added to and may be removed from the fund—and minimum fund balance policies
- The purpose of each major special revenue fund, identifying the revenue sources and other resources reported in each fund.

The following issues would be considered:

- Are governments applying the standards accurately and appropriately? For instance, are the actions used by governments to commit or assign fund balance consistent with the requirements of the standards?
- Is further guidance needed with regard to nonspendable fund balance, such as distinguishing between inventory that will be sold for restricted, committed, or assigned resources and inventory that will be used in the provision of goods and services?
- Do there continue to be instances of governments temporarily transferring resources from the general fund into other governmental funds despite the provision in Statement 54 that

resources outside of the general fund are, at a minimum, *intended* to be used for the purpose of the fund?

- Are governments reporting any stabilization arrangements outside of unassigned fund balance or in special revenue funds? If so, do those arrangements meet the requirements to be reported in that manner?
- To what extent are governments presenting the required detail within each fund balance classification on the face of the balance sheet versus in the notes to the financial statements? How does the choice of display versus disclosure affect the use of the information by financial statement users, if at all?
- How have the clarifications of fund type definitions affected what funds are reported by governments? What effect has there been on the usefulness of information, if any, from resources that were previously reported in a separate special revenue fund now being reported in the general fund?
- Do the required disclosures provide users with information that is valuable for making decisions and assessing government accountability?

Reasons for Considering Pre-Agenda Research on This Topic: The GASB routinely reviews its existing standards to ensure that they remain effective. Those reviews typically take place after a pronouncement has been in effect long enough to be fully evaluated. Statement 54 has been in effect since periods beginning after June 15, 2010.

Statement 54 was the subject of a 2016 Post-Implementation Review (PIR) by the FAF. The PIR concluded that Statement 54 met its objectives, provides decision-useful information, and is operational (that is, the standards are understandable, can be applied as intended, and enable information to be reported reliably).

The results of pre-agenda research conducted for the reexamination of the financial reporting model confirmed that governmental fund information continues to be highly useful to making decisions and assessing government accountability. Fund balance, in particular, is among the most widely used information in the entire financial report.

Fund balance is among the most frequent technical inquiry topics. More than 500 technical inquiries on fund balance were received in the period between the issuance of Statement 54 and the year it became effective. Staff members have received an average of more than a dozen technical inquiries on fund balance per year since 2017.

In 2017–2019, GASAC members ranked this topic in the top third of all pre-agenda research activities and potential standards-setting topics.

History:

- Added to the potential reexamination topics list: December 2016
- FAF Post-Implementation Review: November 2016

<u>Intangible Assets—Reexamination of Statement 51</u>

<u>Objective</u>: 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.

<u>Description of Topic</u>: 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. That 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 words, 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 following issues would be considered:

- What issues have arisen, if any, related to the application of the definition of an intangible asset? 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 or 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?

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

Since its issuance, the GASB has recorded more than 350 technical inquiries related to Statement 51. That number has dropped somewhat since the passing of the effective date. GASB staff members have received approximately seven inquiries a year since 2017.

In 2016 and 2017, GASAC members ranked the priority of this topic in the middle third of all pre-agenda research activities and potential topics. In 2018 and 2019, it was in the bottom third.

History:

- Added to the potential reexamination topics list: April 2016

<u>Inventory—Reexamination of Statement 62</u>

<u>Objective</u>: 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.

<u>Description of the Topic</u>: Much of the current accounting literature for inventory was intended for businesses. 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). That 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 a portion of paragraph 73 of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles,* which allows for a choice in governmental fund financial statements 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.

The following issues would be considered:

- Does the present guidance for inventory remain appropriate for both BTAs 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 those standards. For practical purposes, the guidance incorporated into the GASB literature by Statement 62 was brought in "as is." Furthermore, that guidance is not strictly applicable to governmental activities, nor is it clearly applicable to certain kinds of inventory held by state and local governments. Inventory is an infrequent topic of technical inquiries; the GASB staff has received just three inquiries related to inventory since 2017.

GASAC members ranked the priority of this topic in the bottom third of all pre-agenda research activities and potential topics in 2015–2019.

History:

- Added to the potential reexamination 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 30-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.

Statement No. 83, *Certain Asset Retirement Obligations,* was issued in 2017 and addresses asset retirement obligations (AROs) other than landfills. Rather than estimated total current cost, Statement 83 measures AROs using the best estimate of the current value of outlays expected to be incurred. The best estimate should be based on probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. That is similar to the approach taken to measuring liabilities in Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.*

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 information and, if so, what alternative measurement approaches might be appropriate? Should liabilities for landfill closure and postclosure care be measured using the same approach as Statement 83 requires for other AROs?
- 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?

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 49 was added to the current technical 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. A particular 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 at that time. 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, as noted above. In addition, the Board excluded all landfills from the scope of Statement 83 so that all landfills could be assessed at the same time.

The GASB staff has received about six technical inquiries per year regarding Statement 18 since 2017. The inquiries often involve the staff explaining the basic requirements of Statement 18 rather than interpreting those requirements.

GASAC members ranked the priority of this topic in the bottom third of all pre-agenda research activities and potential topics in 2015–2019.

History:

- Added to the potential reexamination topics list: December 2008

Pollution Remediation Obligations—Reexamination of Statement 49

Objective: The initial objectives of this potential topic would be to determine if modifications to the current guidance in Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, 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.

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 the existing 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.

The following issues would be considered:

- Do the "obligating events" in Statement 49 faithfully represent when a liability exists for a government? If not, should a government recognize an obligation sooner or later?
- Does the expected cash flow measurement technique provide relevant and useful information to users of financial statements? If not, what measurement technique (lowest/highest figure in a range, discounted cash flows, and so on) would be more appropriate?
- Should the guidance in Statement 49 be reconsidered in light of the provisions of Statement No. 83, *Certain Asset Retirement Obligations*?
- Is further guidance on pollution *prevention* obligations warranted? How analogous are those obligations to pollution remediation?

Reasons for Considering Pre-Agenda Research on This Topic: Statement 49 was first effective for periods beginning after December 15, 2007. The standards have not yet been reexamined by the GASB. Although the GASB received many technical inquiries regarding Statement 49 during the implementation period and in the first few years thereafter, the number of questions has subsided—fewer than 20 since 2017.

Statement 49 was reviewed by the FAF PIR. The PIR found that the Statement is effective in addressing the primary issues underlying its stated objectives. Information regarding pollution remediation obligations is more consistent, timely, and complete. The Statement also provides users of financial statements with decision-useful information.

In 2015–2019, GASAC members ranked the priority of this topic in the bottom third of all pre-agenda research activities and potential topics.

History:

- Added to the potential reexamination topics list: April 2013.
- FAF Post-Implementation Review: August 2016

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 Statements No. 71, *Accounting for the Effects of Certain Types of Regulation,* No. 90, *Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs,* and 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 (1) result in a more faithful representation of the economic substance of regulated-operations transactions and (2) 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 (similar to a deferred outflow 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 (similar to a deferred inflow of resources) if ordered by a regulator to make refunds 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.

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 Statements 71, 90, and 101 into the GASB literature. The effective date for Statement 62 was 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*. Statement 65 requires that the entity should recognize a deferred inflow of resources in lieu of a regulatory liability when the resource flows would be applicable to future reporting periods.

The following issues would be considered:

- To what extent do governments with regulated operations elect to apply those 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 criteria for being allowed to apply regulatory accounting (paragraph 476 of Statement 62) still appropriate?
- 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 accurately portray economic reality? Do they meet the definitions of assets and liabilities in GASB Concepts Statement No. 4, *Elements of Financial Statements*? 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 of 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 recognition of a regulatory asset 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?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: The guidance carried forward from FASB Statement 71 into Statement 62 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.

Regulated-operations accounting is a less-common topic of technical inquiries received by the GASB—a total of 23 since 2017.

GASAC members have ranked the priority of this topic in the bottom third of all pre-agenda research activities and potential topics in 2015–2016 and 2018–2019. They ranked the topic in the middle third in 2017.

History:

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

Related Party Transactions—Reexamination of Statements 56 and 62

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of the guidance for related party transactions and (2) to consider the need for revisions 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 for related party transactions.

Description of Topic: Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,* was prompted by a request from the AICPA that the GASB and FASB incorporate into their own literature the accounting and financial reporting guidance then-residing in the AICPA's audit literature. Related party transactions were one of three topics covered by the guidance that was transferred in Statement 56.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* paragraph 57, defines a related party as an individual or entity whose management or operating policies a government can significantly influence—or which can significantly influence the government's management or operating policies—"to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests." Related parties include a government's management and elected or appointed officials, and their immediate families, as well as the related organizations, jointly governed organizations, and joint ventures identified in Statement No. 14, *The Financial Reporting Entity,* as amended. Although transactions with related parties generally are not accounted for differently than transactions with unrelated parties, the nature of their relationship with a government may be such that one cannot presume the transactions are carried out on an arm's-length basis, as would be the case for transactions with unrelated parties.

The general requirement to disclose transactions with related parties comes from NCGA Interpretation 6, *Notes to the Financial Statements*. However, the specific disclosures are identified in paragraph 55 of Statement 62, as amended:

> 55. Financial statements should include disclosures of related party transactions, other than compensation arrangements, expense/expenditure allowances, and other similar items in the ordinary course of operations. The disclosures should include:
>
> a. The nature of the relationship(s) involved
> b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which financial statements are presented, and such other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements
> c. The dollar amounts of transactions for each of the periods for which financial statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period
> d. Amounts due from or to related parties as of the date of each statement of net position presented and, if not otherwise apparent, the terms and manner of settlement.

The following issues would be considered:

- How prevalent are related party transactions for state and local governments? How significant are the dollar amounts involved in those transactions?
- What types of related party transactions do governments disclose in practice? Are the disclosure standards appropriately applied to those transactions? Do the descriptions in the disclosures appropriately capture the nature of the transactions and the related parties themselves?
- What transactions are governments including, if any, that are not with related parties, as defined in the standards, or conversely excluding that are with related parties, if any?
- Is the information disclosed about related party transactions useful for making decisions and assessing government accountability?

Reasons for Considering Pre-Agenda Research on This Topic: The GASB routinely reviews its existing standards to ensure that they remain effective. Those reviews typically take place after a pronouncement has been in effect long enough to be fully evaluated. FASB Statement 57 was effective beginning in 1982. NCGA Interpretation 6 and the guidance from the AICPA audit literature both began to be effective in 1983. Moreover, the Board incorporated the guidance from the FASB and AICPA literature into Statement 62 essentially as is, with some adjustments for consistency with other GASB standards. Therefore, those standards have never been evaluated for their appropriateness to state and local governments, their effectiveness, or the usefulness of the information that results from their application.

The content of disclosures of related party transactions is included within the scope of the pre-agenda research reexamining note disclosures. The findings of that research may provide information that is relevant to some of the issues noted above.

Related party transactions are not a common topic for technical inquiries. Only four inquiries on this topic have been received since 2017. In 2017 and 2019, the topic ranked in the middle third of all research activities and potential topics during the GASAC prioritization discussion, and in the top third in 2018.

History:

- Added to the potential reexamination topics list: December 2016

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). 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.

The following issues would be considered:

- 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 governments.

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 2015–2019 meetings, the GASAC members ranked the priority of this topic in the bottom third of all pre-agenda research activities and potential topics.

History:

- Added to the potential reexamination 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*. 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*.

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, recognizing, 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?

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 2015–2019 meetings, the GASAC members ranked the priority of this topic in the bottom third of all research activities and potential topics.

History:

- Added to the potential reexamination 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 requirement in Statement 48 to report intra-entity transfers at carrying value was the subject of two questions and answers in *Implementation Guidance Update—2019*. The GASB also established guidance in Statement No. 92, *Omnibus 2020,* to clarify the accounting for transfers of assets from a government to a pension or OPEB plan within its reporting entity.

The following issues would be considered:

- 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 FASB Accounting Standards Update No. 2014-09—Revenue from Contracts with Customers, which introduced the notion of a performance obligation approach?
- How did the introduction of deferred inflows of resources affect the comparability of reporting across governments, if at all?
- Does the accounting required by Statement 65 appropriately reflect the concept of interperiod equity with respect to sales of receivables and pledges of future revenues?
- Did Statement 48 adequately improve disclosures about pledged revenues? Did it lead to information that is useful for assessing accountability and making decisions?

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. In recent years, the provisions related to intra-entity transfers have prompted some additional inquiries, a topic addressed in recent implementation guidance and Statement 92 (as noted previously). Otherwise, the substance of the inquiries does not suggest that there are widespread problems of interpretation of the standards or diversity in practice.

During their 2017 and 2019 meetings, GASAC members ranked the priority of this topic in the middle third of all pre-agenda research activities and potential topics. In 2013–2016 and 2018, the topic was in the bottom third.

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 (paragraph 286, references omitted):

- 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.

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 considered:

- 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 reexamined? Does the current guidance for sales of real estate align with the GASB's existing Concepts Statements and ongoing conceptual framework project on recognition?
- How might FASB Accounting Standards Update No. 2014-09—Revenue from Contracts with Customers, which introduced the notion of a performance obligation approach, affect present guidance?

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 that guidance.

During 2015–2019, GASAC members ranked the priority of this topic in the bottom third of all pre-agenda research activities and potential topics.

History:

- Added to the potential reexamination 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 or 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 motivation for entering one transaction versus 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 (now Q&A 6.12.9) 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 following issues would be considered:

- How decision-useful has information about securities lending been subsequent to the implementation of those 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? Should 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?

The following issues associated with Interpretation 3 would be considered:

- Should reverse repurchase agreements reported in an internal investment pool continue to be allocated to the participating funds based on the funds' 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 that 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—just four since 2017, all regarding securities lending.

During their 2015–2018 meetings, the GASAC members ranked the priority of this topic in the bottom third of all pre-agenda research activities and potential topics. In 2019, it was in the middle third.

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 a former 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.
> 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, 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

[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.

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 considered:

- 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 that information to evaluate economic condition?
- Are the overarching objectives listed in Statement 44 still appropriate for the governmental environment?
- Do the 5 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 information in the statistical section—basic financial statements, notes to basic financial statements, RSI, or SI? Rather than considering the statistical section in its entirety, is particular information 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 two a year since 2017.

GASAC members ranked the priority of this topic in the middle third of all pre-agenda research activities and potential topics in 2015 and 2017. In 2016 and 2018–2019, it ranked in the top third.

History:

- Added to the potential reexamination topics list: December 2011

Subsequent Events—Reexamination of Statement 56

Objective: The initial objectives of this potential topic would be (1) to evaluate the effectiveness of the guidance for subsequent events and (2) to consider the need for revisions 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 for subsequent events.

Description of Topic: Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards,* was prompted by a request from the AICPA that the GASB and FASB incorporate into their own literature the accounting and financial reporting guidance then-residing in the AICPA's audit literature. Subsequent events were one of three topics covered by the guidance that was transferred in Statement 56.

Subsequent events occur after the end of the fiscal year but before the financial statements are issued. There are two kinds of subsequent events. *Recognized* subsequent events relate to conditions that existed as of the date of the financial statements and, therefore, may require a government to adjust amounts already recognized. *Unrecognized* subsequent events involve conditions that were not in place as of the date of the financial statements. Because the conditions affected by the subsequent event took place after the fiscal year, the impact of the subsequent event is not reflected in the financial statements and, therefore, may need to be disclosed. It also may be necessary to mention unrecognized subsequent events in the section of management's discussion and analysis related to currently known facts, decision, or conditions.

The general requirement to disclose subsequent events is found in NCGA Interpretation 6, *Notes to the Financial Statements*. However, neither Interpretation 6 nor Statement 56 specify what information should be disclosed about unrecognized subsequent events.

The following issues would be addressed:

- How prevalent are subsequent event disclosures by state and local governments? What types subsequent events do governments disclose in practice?
- What issues do governments and auditors have, if any, in applying the standards?
- What information are governments disclosing about subsequent events? Is the information useful for making decisions and assessing government accountability? What information do users need about subsequent events that they are not currently receiving? How would they use that information?

Reasons for Considering Pre-Agenda Research on This Topic: The GASB routinely reviews its existing standards to ensure that they remain effective. Those reviews typically take place after a pronouncement has been in effect long enough to be fully evaluated. Statement 56 was effective upon its issuance in March 2009. However, the AICPA audit literature dates back to 1972 and Interpretation 6 began to be effective in 1983. Moreover, the Board incorporated the guidance from the AICPA literature into Statement 62 essentially as is. Therefore, those standards have never been evaluated for their appropriateness to state and local governments, their effectiveness, or the usefulness of the information that results from their application.

The content of disclosures of subsequent events is included within the scope of the pre-agenda research reexamining note disclosures. The findings of that research may provide information that is relevant to some of the issues noted above. In addition, the MD&A section on currently known facts, decision, or conditions is being addressed in the Financial Reporting Model Reexamination project.

Subsequent events are not a common topic for technical inquiries—about 3 per year since 2017. The topic ranked in the bottom third of all pre-agenda research activities and potential topics in 2017, in the top third in 2018, and in the middle third in 2019.

<u>History</u>:

- Added to the potential reexamination topics list: December 2016

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 (1) to hasten an employee's voluntary termination of services, sometimes referred to as early-retirement incentives, and (2) 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 that 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 (1) the discounted present value of expected future benefit payments or (2) the undiscounted total of estimated future benefit payments at current cost levels.

As an exception to those 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. 68, *Accounting and Financial Reporting for Pensions,* as amended, or Statement

No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as applicable (the latter will be superseded by Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as amended, beginning in 2018).

This topic would consider (1) how termination benefits accounting fits into the overall area of compensation accounting and (2) if the measurement method is conceptually sound and comparable to other areas of postemployment benefits.

The following issues will be considered:

- Was 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 termination benefits transactions? Are the recognition criteria still appropriate?
- Are "expected future benefit payments" an appropriate measurement? Would "most likely payments," "the minimum in a range of payments," or another criterion be more appropriate?
- Is the estimated yield, over the period 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 pension and OPEB standards?
- Are there other areas of compensation for which there is no guidance that the GASB should seek to address to provide comprehensive guidance for compensation?

<u>Reasons for Considering Pre-Agenda Research on This Topic</u>: 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 OPEB plan, which were to be implemented simultaneously with 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 used termination benefits as one method of reining in costs. The GASB has received 7 technical inquiries on termination benefits since 2017.

GASAC members ranked the priority of this topic in the bottom third of all pre-agenda research activities and potential topics in 2015–2017. In 2018 and 2019, it ranked in the middle third.

<u>History</u>:

- Added to the potential reexamination topics list: December 2011

<u>Troubled Debt Restructurings—Reexamination of Statement 62</u>

<u>Objective</u>: 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." 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 considered:

- What is the most appropriate method of measurement for troubled debt restructurings?
- If there is a substitution of debtors, is there 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 ranked in the bottom third of all pre-agenda research activities and potential topics in the GASAC's annual discussion of technical plan priorities in 2015–2018. In 2019, it was in the middle third.

History:

- Added to the potential topics list: December 2010