

RESEARCH PROJECT DESCRIPTIONS



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Electronic Financial Reporting First-Third 2013 Technical Plan

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

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

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

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

The application of XBRL to governmental financial reporting is still in the early development phase; however, some individuals and national organizations have expressed an interest in an effort to develop a taxonomy framework for state and local governments. (A pilot project with the state of Oregon was undertaken in 2007, as discussed below.) The electronic financial reporting taking place in the interim raises a number of concerns that the Board may wish to explore in the short run.

Project History: The project was added to the research agenda in August 2001.

The staff has an ongoing project (as time allows) to analyze state and local government websites. The first step in that research was to compile a comprehensive list of key information items to provide consistency and focus in the website searches. That database design has been completed and will be modified and updated, as time permits, as research progresses. The database includes information on the extent to which governments are reproducing their external financial reports on their websites, whether they present other financial information including financial condition measures and service efforts and accomplishments or performance items, and a variety of other information and statistics. The staff completed the website visits for all 50 states in 2001 and made an initial analysis of the results of the research. Since that research was completed, staff commitments to current technical agenda projects have severely limited the time available to conduct the website research.

In addition to understanding what is *currently* being done in electronic reporting, an important part of the research effort has been focused on gaining a better understanding of the implications of what *can* (and very likely *will*) be done in the near future. In that regard, the project staff developed a demonstration model that incorporates a level of sophistication and interactivity that goes beyond the status quo of presenting “pictures” of the published comprehensive annual financial report (CAFR) in Adobe (.PDF) formats, and perhaps even beyond what might be envisioned after widespread implementation of XBRL, should that occur. The working prototype model features a multi-level linked design to allow site visitors (users) to access information in varying degrees of detail and from a variety of sources. Many government websites have this multi-level design now; however, financial information, if presented, is generally not incorporated into the linking system. There are several potential benefits to maintaining an in-house electronic reporting model prototype.

- The ability for hands-on application would allow the Board to evaluate financial reporting alternatives in both a traditional and electronic reporting environment.
- It would enhance the Board’s responsiveness to real-world situations.
- Developing a model that governments may see as a “prototype” (and could use or emulate) would enhance experimentation. The Board would benefit by an increased awareness of what governments are actually doing.

An XBRL pilot project was initiated in June 2007 by the state of Oregon. That project, with outside funding assistance, involved creating XBRL financial statements for a statement of net assets and statement of activities using the state of Oregon's CAFR. A multi-disciplinary team, including GASB staff members, was assembled to build a limited taxonomy for these two statements as a demonstration project. The GASB staff played an advisory role in the pilot project providing comments and suggestions to the other project team members as the experiment progressed. It is hoped that the products of the pilot will serve as a starting point for other governments to continue the development of an XBRL taxonomy and architecture for state and local governments. The staff will continue to monitor the development of a governmental taxonomy framework. The staff also monitors academic research pertaining to electronic reporting issues and uses the results of those external studies, as appropriate.

A 2010 publication by the National Association of State Chief Information Officers (NASCIO) "A Call to Action for State Government: Guidance to opening the doors to state data," discusses the data transparency trend at the state government level. The report highlights some of the initiatives already undertaken by some states in which open access to public information is made available through a website data portal system. The report stresses the importance of transparency and accountability, and while it focuses on the availability of unabridged data that has not been aggregated, summarized, or interpreted, many of the concepts are consistent with the GASB's interest in the provision of timely user interactive financial statements.

The NASCIO initiative is based on three basic principles (Transparency, Participation, Collaboration) that are consistent with the objectives of our electronic financial reporting project. Most notably is the *Transparency* principle, which is "To enable greater accountability, efficiency, and economic opportunity by making government data and operations more open."

One of the anticipated outcomes of the NASCIO initiative is greater government accountability, credibility, and integrity, because the public will have easier access to government reports and the underlying data. The GASB's prototype electronic reporting model was developed on that principle.

A series of conference calls were initiated with NASCIO, NASACT, and AGA to determine if there were common interests at the state level that would enhance further research efforts associated with electronic financial reporting. The GASB staff and the other groups drafted

papers that outlined their respective interests, objectives, or philosophies. The NASCIO initiative is focused on unabridged data that is not aggregated, summarized, or interpreted. They view the process as evolutionary—to begin with data that is already created for public consumption and would be interesting and useful. The AGA agreed to assume the lead position for this effort and conducted a series of user roundtables to investigate the types of information that would be most useful to all types of potential users and the best ways to provide access to that information.

The AGA issued a white paper summarizing the results of their user needs focus group sessions. As a next step, the group may enlist volunteer governments to experiment, even in a limited way, with some aspect of on-line interactive financial reporting. From a timing perspective, however, the condition of the state and local government economies and resulting budgetary pressures leaves few, if any, financial and human resources that could be devoted to an electronic financial reporting effort. Thus, expectations for near-term progress are modest.

The project staff routinely updates the GASAC on the project and the Council members generally assign a relatively high priority to it. At the November 2011 GASAC meeting, the Council members provided the Board with feedback on what the GASB's role should be in advancing the progress of electronic financial reporting.

Current Developments: The project staff continues to monitor the progress of XBRL reporting in the private sector alert for interest or activity in connection with financial reporting applications by state or local governments. There has been recent publicity about state and local governmental interest in XBRL development to make the process of federal grant reporting more efficient and timely.

In July, 2012, the Association of Government Accountants (AGA) published a report focusing on electronic reporting (Report No. 32 in the AGA research series). References to the GASB and the Federal Accounting Standards Advisory Board (FASAB), their financial reporting objectives, and the roles that standards setters have played and can play in the advancement of electronic financial reporting are included in the report.

The research gauged respondents interest in a host of different capabilities that government websites could have. Among the most popular features identified by respondents were search

capabilities by agency, department or program, providing prospective and fiscal sustainability data, providing performance data, and hypertexted data with drill-down capabilities. Checkbook level detail generated the least interest. The respondents preferred level of detail is “somewhat detailed and somewhat aggregated.”

The report suggests that standards-setters should be interested in establishing standards or publishing best practices even if they do not ultimately have the force of GAAP. Among the report’s recommendations are that “Standard setters, preparers and citizen-users all have a stake in the success, and all should have a stake in the process,” and that “Standardization of data definitions, report content and report format is paramount.”

Research Work Plan:

Research

January–April 2013:

Project staff will continue to monitor the developments of XBRL reporting and other forms of electronic reporting.

Fiduciary Responsibilities First-Third 2013 Technical Plan

Project Description: The objective of this research project is to assess whether additional guidance should be developed regarding the application of the *fiduciary responsibility* criterion in deciding whether and how governments should report fiduciary activities in their financial reports.

Background: The process of implementing GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers* (issued in November 1994) triggered numerous technical inquiries as to whether an employer should report a particular pension plan as a pension trust fund. Existing standards did not provide a basis for a clear answer to those questions. Moreover, staff became aware that, in the absence of authoritative guidance, preparers and auditors have tended to interpret government's fiduciary responsibility in a variety of ways, ranging from very broadly to more narrowly (for example, focusing on custody of the trust assets).

During the deliberations that led to the issuance of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, in October 1997, the Board recognized that the definition of fiduciary funds provided in NCGA Statement 1, as amended, and the fiduciary responsibility provisions in Statement 14, paragraph 19, may not be sufficiently descriptive to assist all governments in determining if a potential fiduciary activity should be reported as a trust or agency fund. The Board identified *administrative involvement* and *investment functions* as two possible characteristics of fiduciary responsibility in this situation. However, because modifying fund reporting requirements was beyond the scope of that project, the nonauthoritative guidance was presented in the Basis for Conclusions.

Issues regarding whether, or in what way, fiduciary activities should be included in employers' financial reports also arose during the development of the financial reporting model promulgated in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. In Statement 34, the Board distinguished between (a) governmental and proprietary funds, which can be used to support the government's programs or other services, and (b) fiduciary funds, which are held in a trustee or agent capacity for others.

Statement 34 excludes fiduciary activities from the government-wide financial statements, because they cannot be used to support the government's programs and services, but requires that fiduciary funds and component units be reported in fund financial statements, in view of the government's stewardship responsibility for them.

Technical inquiries concerning financial reporting for fiduciary activities continue to come to the staff. For example, questions have arisen regarding reporting of state prepaid tuition plans (Internal Revenue Code Section 529 Savings Plans), which have grown in popularity and dollar significance over the past decade.

Accounting and Financial Reporting Issues: This project considers whether additional guidance should be developed for determining whether a government has *fiduciary responsibility*, specifically addresses the following issues that have been raised in technical inquiries submitted to the GASB and through staff research:

- Should the determination of whether a government has a fiduciary responsibility be based on a traditional fiduciary view, on a legal trustee notion, on required contributions to a benefit plan, on management or investing responsibilities, or on some other combination of criteria depending on the type of fiduciary relationship?
- Is different guidance appropriate for different types of fiduciary activities (defined benefit, defined contribution, deferred compensation, and so forth)?
- If a stand-alone business-type activity also engages in fiduciary activities, should the fiduciary activities be reported? If so, how?
- If one government reports a multi-government fiduciary activity (such as a multiple-employer defined benefit plan), do the other governments still have a fiduciary responsibility that requires some form of reporting?
- Which governments are most likely to have private-purpose trust funds and what are the financial statement information needs of those particular users?
- Does the notion of fiduciary responsibility need to be modified or applied differently for agency funds and should a different term be used to describe *agency funds* in order to assist a user's understanding of a governmental entity's fiduciary funds held by an a government?
- What decision-useful or accountability information would be needed to meet user needs regarding a government's fiduciary activities?

- What additional or different disclosures are appropriate for activities for which a government has fiduciary responsibility?
- How do the decisions reached in this project impact other accounting guidance, such as reporting pass-through grants and food stamps under Statement 24 and reporting endowments under Statements 33?

Project History: The project was added to the research projects list in 2000. The project was transferred from the research agenda to the potential projects list in January 2006. In April 2008, the project was combined with the project reexamining Statement 14. In November 2009, the Board decided to remove fiduciary responsibilities from the scope of the Statement 14 reexamination project and add it to the potential projects list. In April 2010, the project was added to the research agenda. Based on additional research that was conducted, a draft project prospectus was prepared and presented to the GASAC at its October 2010 meeting. An initial project prospectus was presented to the GASB at its December 2010 meeting.

The completed research and an updated project prospectus were discussed and feedback was provided at the February 2011 GASAC meeting. At that time the project was ranked in the top 5 by the GASAC. The GASAC also reviewed a draft report summarizing the results of the survey on fiduciary activities and the staff's conclusions at its March 2012 meeting.

Current Developments: The GASAC reviewed a project update and provided comments about the staff's analysis of common themes about the meaning of fiduciary responsibilities. The project staff will conduct further research on the above questions to address whether and how governments should report fiduciary activities in their financial reports. Based on the results of this research, a revised project prospectus will be developed.

Research Work Plan:

Research

January–April 2013:

The project staff will conduct further research on the above questions to address whether and how governments should report fiduciary activities in their financial reports.

Lease Accounting—Reexamination of NCGA Statement 5 and GASB Statement 13 First-Third 2013 Technical Plan

Project Description: The objectives of this project are to reexamine issues associated with lease accounting and consider improvements to existing guidance

Background: Governments routinely enter into leases. Current guidance is provided by National Council on Governmental Accounting (NCGA) Statement 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*, GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The latter pronouncement incorporates the provisions of FASB Statement No. 13, *Accounting for Leases*, as amended and interpreted, into the GASB's authoritative literature.

Under the current authoritative literature, many of these leases are reported as operating leases. Even though operating leases represent long-term commitments to make payments, no liabilities are reported, although there are disclosures. Likewise, no assets are reported when governments have long-term rights to receive operating lease payments. In Concepts Statement No. 4, *Elements of Financial Statements*, the Board established definitions of assets and liabilities. The results of this research will provide a basis for the Board to consider whether operating leases meet the definitions of assets or liabilities.

The FASB and the International Accounting Standards Board (IASB) have current projects that propose to replace private sector guidance. Because of the potentially significant changes of the FASB/IASB project, the staff has received technical inquiries regarding whether there are any plans for the GASB to update its leasing guidance.

Finally, part of the GASB's strategic plan is to evaluate the effectiveness and impact of existing standards that have been in effect for a sufficient length of time. NCGA Statement 5 was issued in 1982 and GASB Statement 13 in 1990. This research project provides an opportunity for a fresh look at the existing guidance for any improvements not contemplated by the FASB/IASB project given the unique nature of governmental entities and the complexities of their leasing transactions.

Accounting and Financial Reporting Issues: The major topic being researched is the forms of financial reporting display and disclosure that would meet essential financial statement user needs. The project is considering the following research issues:

1. What types of leases are entered into by state and local governments?
2. What specific user needs exist regarding governmental leases and what decision-useful or accountability information is needed to meet those needs?
3. Are current accounting and financial reporting standards appropriate to meet essential user needs?
4. Should there be a distinction between operating and capital leases?
5. If current standards are not considered to be adequate, what additional potential requirements should be considered?

Project History: A proposal to add the project to the research agenda was discussed by the GASAC at its March 2011 meeting and the project was added to the research agenda in April 2011.

Current Developments: The most significant issue is the reexposure of the FASB's proposed lease accounting standards, expected in the first half of 2013.

Research Work Plan

January–April 2013:

Research

Research the types of leases that governments enter into and monitor current FASB and IASB projects.

Tax Abatement Disclosures First-Third 2013 Technical Plan

Project Description: The objective of this research project is to assess whether note disclosure guidance should be considered for governments that have granted tax abatements or subsidies. The scope of the research project would be limited to disclosure of information about tax abatements. It would not consider issues related to recognition or measurement of tax abatements.. The research project also would encompass programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizen or veterans, which are not the product of individual agreements with each taxpayer.

Background: Tax abatements are a reduction of or exemption from taxes, offered by a government to a specific taxpayer, typically for the purpose of spurring economic development. They are generally applied to ad valorem taxes, in particular property taxes. For instance, a government may offer a company an abatement of its property taxes—perhaps as a percentage of taxes or a flat dollar amount—in return for the company constructing and occupying an office or retail building within the government’s geographic area.

Tax abatement programs are widespread. Governments in 42 states are allowed by their states to offer tax abatements.¹ The dollar amounts and number of governments involved can be substantial. For example, 40 percent of localities in Michigan granted at least one abatement between 1980 and 2001 under a statewide industrial development abatement program that currently abates local government taxes by an estimated \$1 billion annually.² That is the equivalent of more than 10 percent of all sub-state tax revenue in Michigan.³

At present, generally accepted accounting principles do not require state and local governments to disclose tax abatements as either an offset to revenue or an expense/expenditure.

¹ Wassmer, Robert W. “The Increasing Use of Property Tax Abatement as a Means of Promoting Sub-National Economic Activity in the United States” (December 12, 2007). Available at SSRN: <http://ssrn.com/abstract=1088482>.

² Sands, Gary and Laura A. Reese. *Public Act 198 Industrial Facilities Tax Abatements: Current Practices and Policy Recommendations*. (East Lansing, MI: Land Policy Institute, Michigan State University, October 2007).

³ 2002 Census of Governments, State and Local Government Finances, U.S. Bureau of the Census. Available at: <http://www.census.gov/govs/www/estimate02.html>.

The Gil Crain Memorial Research Grant for 2010 was awarded to three academics who proposed to conduct research on tax abatement disclosures. Their research was completed and submitted to the GASB in August 2011. The research focused on *stand-alone property tax abatement programs* (SAPTAPs) and entailed:

- A summary of the literature related to tax abatements
- An examination of state constitutions and statutes related to tax abatement programs and reporting on tax abatements
- A review of best practices in the area of reporting on the results of tax abatement programs
- A search of websites of county governments known to participate in abatement programs
- A survey of users.

SAPTAPs are programs that “(a) provide for decreased tax liability for select parcels, (b) serve a specific purpose beyond tax relief—e.g., spurring growth, (c) are in effect for a limited time, and (d) can stand alone without other incentives.”⁴ There is a considerable body of research on tax abatements, particularly focusing on evaluating their effectiveness as an economic development tool, accountability for tax abatement programs, and improving the information available with which to make decisions about granting abatements.

The academics found that 44 states have statutes regarding programs in line with the definition of SAPTAPs. However, they identified just six states with statutes addressing reporting requirements. Fourteen states addressed accountability for abatement programs in their statutes by including provisions for benefit recovery (clawbacks) in instances of nonperformance by the recipient of the abatement. It may be possible that more states require reporting or impose consequences for nonperformance in policies and procedures outside their statutes; thus, further study is needed to fully answer questions regarding governments’ ability to monitor and evaluate their abatement programs and report their findings to interested parties.

The survey of users was administered to staff and members of citizen groups, municipal bond analysts, and county board members. One portion of the survey offered statements about tax abatement programs drawn from the literature and asked respondents to rate their agreement or disagreement with the statement on a five-point scale (1 = strongly disagree, 5 = strongly agree). The statements specifically relevant to financial reporting were:

⁴ Dalehite, Esteban G., John Mikesell, and Kurt C. Zorn. “Variation in Property Tax Abatement Programs Among States.” *Economic Development Quarterly*, 2005, pp. 157–173.

- a. Governments should report annually on tax abatement agreements outstanding.
- b. Legislators (for example, county commissioners or county board members) involved in granting tax abatements should receive timely reports comparing expected performance to actual performance.
- c. Citizens and other interested parties should have access to annual reports comparing expected performance to actual performance for all tax abatement agreements outstanding.
- d. Information about taxes recovered through recapture provisions should be reported to legislators who grant tax abatements.
- e. Information about taxes recovered through recapture provisions should be accessible to citizens and other interested parties on an annual basis.

Overall, the level of agreement in each of the three groups of users was very high on all five of these statements (an average greater than 4.0). Bond analysts were asked to rate how often they consider five issues related to tax abatements when analyzing municipal securities on a five-point scale (1 = never, 5 = always):

1. Revenues forgone through property tax abatements
2. Expected and actual outcomes related to existing property tax abatements
3. Taxes recovered through recapture provisions when abatements recipients fail to meet conditions in the tax abatement agreements
4. The degree to which a government uses property tax abatements to attract new businesses or to retain and expand existing businesses
5. The degree to which a government uses tax incentives to encourage economic development.

Four of the five factors linked to tax abatements were identified by bond analyst respondents as being considered somewhat regularly (average mean of approximately 3.0—1, 2, 4, and 5).

The surveys of all three user groups asked them to rank the importance of seven items that could be reported by governments about tax abatements they have granted:

- i. Name of recipient
- ii. Date abatement was granted
- iii. Amount of tax abatement in the current year
- iv. Length of tax abatement and projected abatement amounts in future years

- v. Commitments made by the government (e.g., infrastructure improvements)
- vi. Contractual promises made by the recipient (if any)
- vii. Recipient's compliance with contractual promises.

The survey again used a five-point scale (1 = not at all important, 5 = very important). All three groups rated the importance of items iii–vii highly (average of 4.0 or greater).

Disclosure Issues:

- 1. Do users need information about tax abatements?
- 2. How important is information about tax abatements to the decisions that users make and their assessments of accountability?
- 3. What information about tax abatements, if any, should be disclosed in the notes?

Project History: The project was formally added to the potential projects list in August 2008. The GASAC reviewed a draft project proposal for this project as part of its discussion of project priorities at its March 2012 meeting. The members ranked the project in the top five. The project was added to the research agenda in April 2012.

Current Developments: The project staff is conducting research to gain an understanding of the use and types of tax abatements provided by state and local governments as well as current reporting practices. The additional research being conducted by the project staff focuses on other forms tax abatements that were not specifically addressed in the Crain Grant research, which taxes are being abated, how the abatement process functions, and what, if any, information governments are currently reporting.

Research Work Plan

Research

January–April 2013:

Continue additional research on the prevalence and types of tax abatements provided by governments and the information needs of users regarding tax abatements.