



American Accounting Association
Government and Nonprofit Section

Potential Research Topics and Research Issues

The GASB staff has reviewed projects that would benefit from the work of academic researchers. Staff believes that the topics and research questions identified in this paper lend themselves to external research efforts. A brief description of each project, the expected date for beginning Board discussions (if appropriate), and potential research issues related to each project is provided.

Preservation Method

Project Description: The objective of the preservation method project is to determine if reported changes in asset condition levels (associated with the modified approach of accounting for infrastructure assets) can be measured in monetary terms that meet the qualitative characteristics for financial reporting.

Statement 34 requires capital assets, including infrastructure assets, to be reported on the statement of net assets. In developing the Statement, the Board considered alternatives to reporting depreciation expense for infrastructure assets on the statement of activities. One such alternative was the preservation method, which proposed reporting a capital use charge based on changes in an asset's condition level. The Board tabled the preservation method and did not include the option in Statement 34 due to measurement and other issues. Although the Board concluded that a preservation approach of accounting for infrastructure assets would not be included in Statement 34, the Board decided to continue monitoring both the development of asset management systems and the disclosures of governments, which choose to use the modified approach. The results

of this project will help determine whether asset management systems have developed to the point that changes in asset condition levels can be measured in monetary terms that meet the qualitative characteristics for financial reporting.

Staff is already actively engaged in gathering information about the latest developments in asset management systems. Staff is consulting and working with organizations, which are experimenting with and conducting research on condition assessment methodologies. Most of staff's work is the result of continued liaison efforts with AASHTO, Federal Highway Administration (FHWA), and APWA. Because the modified approach depends on information gathered by the engineering community, innovators in this area are departments of transportation and consulting firms oriented to advancing engineering practice. Staff continues to meet with various organizations to understand developing practice, encourage innovation, and explain our requirements.

Primary Research Issues:

1. How are governments implementing the modified approach? Which networks or subsystems is it being applied to? What methods are used to assess condition? What condition levels are set?¹
2. How are those users outside the government using the modified approach disclosures?
3. Do condition assessment methodologies exist that would allow the modified approach to be applied to capital assets other than infrastructure? How would this effect the government-wide financial statements and analysts' interpretation of them?
4. Should an amount be reported in the statement of activities for changes in the condition of capital assets? How would it be measured?
5. What has been the effect of reporting standards in other countries that might have application to the preservation approach? For example, can lessons be learned from

¹ A staff member is serving on a project panel for the Transportation Research Board, a unit of the National Research Council of the Academy (of Science). The project panel will study the different approaches and methodologies that state department of transportations (DOT's) are using to meet the new infrastructure reporting requirements and the consequences of their decisions. Staff believes this will provide the GASB with valuable information for the preservation method project.

studying the experience in other countries (such as the United Kingdom, New Zealand, or Australia) with renewals accounting?

Statement 14 Revisited (2004)

Project Description: The objective of this project is the examination of the criteria for defining the financial reporting entity, including display and disclosure requirements. The existing standard will be evaluated in light of current user needs and practice issues that have arisen since the issuance of Statement No. 14, *The Financial Reporting Entity*, in 1991.

Primary Research Issues:

1. Are the financial accountability criteria an appropriate measure for inclusion? Is it too narrow or too broad?
2. What is being included in financial statements because of the “misleading or incomplete” provisions in paragraph 39? What reasons are given?
3. Are the criteria for blending appropriate? Is it too narrow or too broad?
4. How is the information on major component units being presented—face of the statement, combining statements, notes, or some combination?
5. How is the disclosure guidance in paragraph 63 being applied? What is considered “essential” for fair presentation of the *reporting entity*?
6. How are equity interests in joint ventures being reported?
7. Do users understand the presentation of component units? Are they informed or confused by the presence of other entities? Do they need any additional information to help them make decisions?²

² Researchers already have conducted some research that will be useful in the examination of reporting entity issues. Randy Kinnersley’s dissertation (1997) considered whether a different message was received by users based on the placement of discretely presented component unit information in the financial statements. (See question 4.) Barb Chaney’s dissertation (1997) addressed the significance of reporting entity information in bond market valuations.

Research Projects

Research projects are generally long-term in nature. Staff believes that the topics described in this section could provide ample research opportunities for several years. A brief description of each research project and potential external research issues related to each project is provided.

Service Efforts and Accomplishments (SEA) Research Project

Project Description: The objective of this project is to encourage use and reporting of performance measures and, based on their use, to determine whether performance measures have developed to the point where the GASB will consider establishing a technical agenda project on SEA. This six-year project has six phases: Phase I—*Establish a Performance Measures Clearinghouse on the Internet*, Phase II—*Analyze and Evaluate the Effects of Using Performance Measures for Budgeting, Management, and Reporting*, Phase III—*Users' Responses to Performance Measures*, Phase IV—*Criteria on Effective Communication Methods*, Phase V—*Experimentation with Criteria*, and Phase VI—*Characteristics Needed for General Purpose External Financial Reporting*. Phases I and II are essentially complete, and staff has begun work on the remaining phases.

The Alfred P. Sloan Foundation has provided (and renewed) a significant grant to the GASB to enhance SEA research efforts and to address performance measurement developmental needs for state and local government. This grant is only a part of a much larger Sloan Foundation initiative to improve governments' accountability to its citizens through the use of citizen-based performance assessment. The foundation has provided research grants to many organizations that either directly or indirectly benefits the GASB's internal research efforts. The GASB staff is monitoring and providing assistance for these other external research efforts. For example, Iowa State University, the Institute of Public Affairs at the University of Iowa, and the Iowa League of Cities are assisting nine Iowa cities to implement "citizen-initiated performance assessment", in which citizens, elected officials, and city staff jointly develop performance measures based on a citizen's perspective, and use the results to help the cities evaluate program results, make strategic planning decisions, and prepare the budget. This research

provides important information as the GASB staff develops suggested criteria for performance reporting.

Primary Research Issues:

1. What performance measures are governments currently reporting? How do they decide which measures to report?
2. How is performance measurement information being communicated to users?
3. Who is using the performance measurement information generated by a government? Who are the internal and external users? How are users educated to use the information?
4. Have citizens been involved in developing performance measurements for governments? If so, how?
5. What has been the result of governments using performance measurement to link budgeted targets to actual performance? Who has used the information? How has it affected decision-making? How has the information been used to assess management performance?
6. How have governments determined that their reported performance measures are relevant and reliable?
7. What has been the effect of performance measurement reporting in countries, such as the United Kingdom and New Zealand, where the reporting has been common for several years? In particular, what has been the effect on accountability, citizen perceptions about a government, and a government's decision-making and budgeting processes?
8. As the GASB develops criteria for performance measurement reporting, there will be a need to test the criteria by having governments use them. Research explaining the process that a government uses in adopting the criteria would be helpful.

Electronic Reporting Research Project

Project Description: The objective of this project is to monitor the effect of the electronic media on information delivery and user needs. Staff is studying the current state of electronic reporting including the development of XBRL and government's use of electronic media. Staff also is in the process of developing a demonstration electronic reporting model in an HTML format. Staff believes that this research will help the Board be proactive in evaluating the potential effect of electronic reporting on financial reporting standards.

Primary Research Issues:

1. How are users of governmental financial reports using electronic reporting to meet their information needs? What types of information are they gathering from electronic reporting? Do users find an HTML format with links from the financial statements to other sites useful in meeting their information needs? If so, how?
2. How does a government determine that the financial information it reports electronically is reliable? How do users assess the reliability of electronically reported governmental financial information?

Popular Reporting Research Project

Project Description: The objective of this project is to determine if the Board should issue guidance for the preparation of popular reports or reports to the citizenry (RTC) by state and local governments.

Primary Research Issues: Staff envisions that the research in popular reporting would update the work done by Carpenter and Sharp in the research report—*Popular Reporting: Local Government Financial Reports to the Citizenry*—that was published in 1992.

1. Who is issuing popular reports? What types of reports are they issuing?
2. What is the medium for reporting—printed reports, videos, websites, etc.?
3. What feedback are governments receiving from users of their popular reports? Do existing popular reports effectively communicating to citizens?
4. Is there auditor association with the reports?

Economic Condition

Project Description: The objective of this project is to determine if additional information on the elements of economic condition should be *required* in/or with basic financial statements, and/or *encouraged* to be provided in other forms of financial reporting. The project is divided into four phases: (1) foundational research, (2) existing economic condition research, (3) reporting indicators of economic condition, and (4) other economic condition reporting issues. Staff believes that external research should be directed to research issues surrounding phase 4, which is a research rather than technical project.

Primary Research Issues: Staff believes updating the work done by Berne in his research report—*The Relationships Between Financial Reporting and the Measurement of Financial Condition*—that was published in 1992 would be a beneficial external research project.

1. Does the current state of financial reporting provide the information users need to assess the underlying elements of economic condition?
2. What additional information would assist users in assessing and understanding the elements of economic condition?
3. What is the relative importance of particular measures in assessing and understanding the elements of economic condition?

Decision Usefulness of Financial Reports

Project Description: The objective of this project is provide the Board with information to better understand how financial reports are used to make decisions. Although not officially included in the technical plan, this project is fundamental to the GASB's work on all projects and was included as a part of the strategic plan. The following action steps from the January 2001 update for the "GASB Strategic Plan" may best explain staff's current work on this project.

- Staff is developing, "a comprehensive research plan to establish a framework for the GASB to better understand how financial reports are used to make decision."
- Staff is developing, "a plan for understanding and documenting unmet users needs."

Gil Crain has already interviewed users in an attempt to gather information about their needs and the decisions that they make. Staff considers his work to be the first phase of the comprehensive research plan and is using his findings and observations to better define directions for future research. After the staff completes the research plans in the first-third of 2002, the plans will be made available to academicians.

Proposed Agenda Item

Staff believes the following proposed agenda item has a potential for external research if the Board decides to add it to the agenda.

Intangible Assets

Project Description: The objective of this project is to address whether reporting guidance should be developed for intangible assets. This projects results in part from confusion about the reporting requirements for capital assets in Statement 34.

Paragraph 19 of Statement 34 states that capital assets include intangible assets that are used in operations and that have initial useful lives that extend beyond a single reporting period. Further, paragraph 21 of Statement 34 explains that capital assets should be depreciated over their useful lives. The GASB has received numerous inquiries concerning the proper reporting of intangible assets and how they should be written off. Inquirers seem particularly concerned about reporting right-of-ways, easements, water rights, development rights, and computer software development costs. For example, some governments do not own the land under their streets, but only have right-of-ways or easements.

Primary Research Issues:

1. How should intangible assets be defined in a governmental environment? What are the common characteristics of intangible assets?
2. What intangible assets do governments have? How are they acquired (for example, purchased, donated, or acquired through imminent domain)?
3. How do governments use intangible assets? What is their relationship to services provided?

4. How are governments currently reporting intangible assets? Are they amortized/depreciated?
5. What valuation issues do governments have with intangible assets? Have governments easily been able to determine their historical cost (or estimated fair value at time of donation)? If not, why?

Summary

Topics for research and specific research issues identified in this paper will be provided to academicians at their regional, sectional, or annual meetings during calendar year 2002. Additional research topics and specific research issues will likely be added after the GASB reassesses its technical agenda during the first half of 2002. During 2002, a summary of research topics and issues of interest to the GASB will be posted on the GASB website. The website will be updated to include additional research topics and issues as they are identified by the GASB's staff. Unfortunately, due to budget constraints, the GASB will not be able to fund research projects by academicians in the foreseeable future.