



2008 REQUEST FOR RESEARCH

Since its formation in 1984, the Governmental Accounting Standards Board (GASB) has encouraged academics and other researchers to conduct studies that would be relevant to the GASB's standards-setting activities. Over the past 24 years, such research efforts have resulted in publishing their research in 21 GASB research reports and in numerous journal articles.

The GASB hopes to encourage more collaborative research efforts with academics by offering a \$5,000 research grant to be awarded by June 15, 2008. Partial funding for the grant comes from the Center for Governmental Accounting Education and Research at the Rutgers Business School in Newark and New Brunswick.

How Research Benefits the GASB

The setting of governmental accounting standards is a research-based activity. The technical staff of the GASB conducts extensive literature reviews, including reviewing the work of other standards setters, and studies the preparation and use of state and local government financial reports. The decision to establish standards is based on a determination, through research and due process activities, that a strong need for information exists among the users of financial statements and that that information can be provided at what is believed to be a reasonable cost.

The GASB technical staff is relatively small. Therefore, the GASB seeks to leverage research efforts by encouraging the academic community to conduct applied research that is relevant to the GASB's standards-setting activities. Two broad areas of research are particularly important to the GASB: research on existing standards; and studies of issues that have not been addressed.

Research on Existing Standards

The GASB attempts to monitor the implementation of its new standards, watching for any difficulties that may arise that can be addressed by providing further guidance or, in extreme cases, additional standards setting. The GASB's implementation monitoring would be aided by research that answers questions such as: What issues arise as governments attempt to implement a new standard? How are users incorporating the new information into their analyses and decision making?

The GASB also is committed to reviewing standards after they have been in effect for a period of not less than five years. Such efforts assess the continuing effectiveness of the standards and would be supported by research that answers questions such as: Have the standards accomplished what they were intended to? In other words, were the standards an effective solution to the underlying issue they were meant to address? Do they provide the information that financial analysts, legislative staff, citizen groups, and others need to perform analyses and make decisions?

Studies of Accounting and Financial Reporting Issues That May Require Standards Setting

The second broad area of research examines issues that are not yet addressed by standards or are insufficiently addressed. This research seeks to answer the following kinds of questions: Do problems exist that need to be solved through standards setting? What is the nature of the issue and how extensive is it? How important is it for users to have relevant information about the underlying problem or issue? Are there important information needs that are unmet that could be addressed through standards setting?

How Conducting Research with the GASB Can Benefit You

The GASB hopes that the monetary award will encourage academic researchers to conduct research that is beneficial to governmental accounting standards setting. Researchers will benefit by working with GASB staff members and by learning more about the internal workings of the GASB. The GASB staff also may be able to help by introducing you to knowledgeable professionals and by encouraging them to participate in your research. Upon completion of your research, the GASB intends to mail a letter of appreciation to your university for allowing you to participate in an important GASB research project.

We encourage researchers who receive a grant to submit the results of their research for publication in a journal. Because the research that is most useful to the GASB is applied research, we realize that you may wish to consider the work that you do for the GASB as part of a larger research agenda. Therefore, we generally support your gathering additional data that would be needed for publication.

Although intangible, a final reason for conducting research with the GASB is the personal satisfaction that you will receive in knowing that you have played an important role in improving governmental accounting and financial reporting standards. We encourage you to be a part of the GASB team by researching some of the questions raised in this call for proposals.

Research Methods

Generally, we do not wish to prescribe the research method that you should use to answer the research questions, and we encourage you to propose the research method(s) that you believe is best to answer the research question that you wish to study. We would ask, however, that any correspondence or surveys that you plan to send to outside parties be reviewed by GASB personnel prior to mailing. Because this research is GASB-sponsored, we must consider how questions asked of others would be perceived.

Content of Research Memorandum

The final product from your research efforts for the GASB should be a research memorandum of publishable quality discussing your research. The content of the research memorandum, at a minimum, should include:

- A discussion of the background, purpose, and scope of the research

- A thorough literature review of relevant related research and the work of other standards setters, if appropriate
- A thorough discussion of the research design and the appropriateness of the research method used
- A thorough discussion of the data-collection process
- A detailed analysis of research results
- A summary and conclusion, including a discussion of what has been learned by conducting the research and the limitations of the research.

The research memorandum should be long enough to sufficiently cover each of the aforementioned bullet points and should include tables summarizing your research results. The GASB staff anticipates that the text portion of the memorandum would be at least 35 pages long (double-spaced), excluding additional pages for tables, the bibliography, and the cover page. The researcher should be available to formally present the memorandum to the Board, if requested. (An agreeable date for such a presentation can be arranged.)

The researcher is expected to provide the GASB with the raw data that was collected and used to support the results presented in the research memorandum. Although the GASB likely will not attempt to do so, it should be possible to replicate the results presented in the research memorandum with the data that you provide the GASB.

Request for Research Funding

If you are interested in requesting funding to research any of the questions raised for the topics in the Research Questions section of this request for proposals, send a request for research funding to David Bean, GASB Director of Research and Technical Activities, by **May 30, 2008**. The request for research funding should be attached as a Microsoft Word document in an e-mail to drbean@gasb.org.

The request should include:

- The research question(s) that you propose to research
- A description of how you believe your research will help answer the question(s) and benefit the GASB
- A thorough description of the research design that you plan to use; this discussion should be as specific as possible and, at a minimum, include a description of the research method that you intend to use (for example, archival, survey, experimental or quasi-experimental research, and so on), why you believe the method is appropriate, and a description of how you expect to collect data for the research
- A description of any limitations that you foresee regarding the validity of your research results
- A timeline for completing the research and preparing a final report for the GASB; this timeline should meet the parameters for reporting back to the GASB, which are described in the next section.

If you have any questions regarding the content of the request for research funding, please contact Dean Mead, GASB Research Manager, at (203) 956-5294 or dmmead@gasb.org.

The GASB will make a determination of the recipients of the research grants by June 16, 2008, and the recipients will be notified and will receive an initial \$2,500 soon after they sign a contract with the GASB. The contract will explain the duties and responsibilities of the GASB and researcher and will describe the deliverables that the GASB expects from the researcher. Upon completion of the research project and the GASB's acceptance of the research memorandum, the remainder of the grant will be sent to the researcher. The maximum amount to be paid to a grant recipient is \$5,000. The grant recipient may share the grant with others who help conduct the research.

Timetable for Proposing and Conducting Research

The following table shows the critical dates for requesting research funding and conducting the research.

<u>Date</u>	<u>Activity</u>
May 30, 2008	Request for Research Funding Due
June 16, 2008	Research Grant Recipients Determined
July 31, 2008	Methodology Finalized in Consultation with GASB Staff
September 30, 2008	Initial Report to GASB Staff on Status of Project and Data Collection
December 31, 2008	Update Report to GASB Staff on Status of Research
April 30, 2009	Summary of Preliminary Findings of Research to GASB Staff
August 31, 2009	Final Research Memorandum Due

Research Questions

The purpose of the grant is to help the GASB answer the following research questions related to the GASB's financial reporting model, two projects on the GASB's research agenda, and seven potential projects. *For purposes of applying for a research grant, you should plan to answer as many of the questions related to one of the ten topics in this section as you can.*

Economic Condition Reporting—Sustainability

The overall, long-term objectives of the GASB's economic condition reporting research project are to map the information that users require to assess a government's economic condition, to compare their needs with the information users receive under current standards, and to consider whether financial reporting standards should be set for additional economic information. One of the most important aspects of the GASB's current work on this research project is to determine if information about the sustainability of major government programs is considered to be useful to state and local government financial statement readers. The Federal Accounting Standards Advisory Board currently requires information on sustainability for social insurance programs as part of the federal government's basic financial statements. The GASB would like help from the academic community to answer the following research questions associated with assessing the overall economic condition of a state or local government:

- Are there any programs in state and local government that would generate similar user interest to that found for federal social insurance programs? If so, what types of sustainability information could be presented for different types of governments (for example, states, counties, cities, school districts) to meet those user needs?
- What other aspects of sustainability are important to users of governmental financial information and how could they be measured? For instance, what measures of dependence on revenue from other governments would be valuable to the decisions that users make and the analyses they perform?

Electronic Financial Reporting

The objective of this 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 would provide the Board with a basis for evaluating if and how accounting and financial reporting standards are affected by the presentation of financial reports using electronic media and potentially the need to develop standards for electronically-presented financial reports. The GASB staff has been monitoring developments in the reporting of governmental financial statement information via electronic media, concentrating on two specific issues:

- The development of 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.

In addition to understanding what is *currently* being done in electronic reporting, it is important for the Board to understand the implications of what *can* (and very likely *will*) be done in the near future. In that regard, the following research areas and questions are of interest.

Interactive Electronic CAFR

The phrase *interactive electronic CAFR* refers to a digital, Web-enabled representation of a government's financial statements that provides users with functionality above and beyond what is currently available in a PDF version of a CAFR. An example of increased functionality is the ability to drill down into increasing levels of detail by clicking on a line item in the financial statements. This action could provide users with a number of things including alternate schedules that support the aggregated number being examined or perhaps a detailed listing of the general ledger (GL) accounts that support the balance in question. The individual GL accounts could then be clicked, sending the user to a schedule that would allow the user to conduct analysis at the transaction level. Another example is the use of the interactive electronic CAFR document as a "portal" to supporting schedules that may be accessed through "point-and-click" features.

- Do state and local governments have the information technology (IT) infrastructure (hardware, software, and personnel) in place to support an *interactive electronic CAFR*?
- For those that have the IT infrastructure, has management deployed an interactive electronic CAFR software solution for external reporting or is it only used for internal reporting?
- How are users benefiting from the interactive electronic CAFR? What are the factors that make it useful?

Business Intelligence Software

Business intelligence software refers to applications and technologies that are used to gather, provide access to, and analyze data and information about a government's operations. A government may use business intelligence applications or technologies to extrapolate information from indicators in the external environment and forecast the future trends in their sector. Business intelligence is used to improve the timeliness and quality of information, and enable managers to be able to better understand their position in comparison to established benchmarks.

- How might business intelligence software be used by state and local governments to enhance external financial reporting?
- Are state or local governments using business intelligence tools (for example, dashboards, on-line analytical processing (OLAP) cubes) to analyze and present financial data? If so, has the information been made available to external users or is its use limited to internal users? How is it being used by internal and external users?

XBRL

In addition to its application for commercial enterprises, there have been discussions about how XBRL could be used by readers of governmental financial statements.

- If the infrastructure is developed to support a taxonomy for state and local governments, how might XBRL be used both internally and externally by a governmental entity? How could it benefit the users of governmental financial statements?

Compensated Absences

The GASB routinely reexamines the effectiveness of its standards once they have been in effect for a sufficient length of time. This potential project would focus on GASB Statement No. 16, *Accounting for Compensated Absences*. Compensated absences are absences for which employees will be paid, such as vacation and sick leave, when they leave the employ of the government. Statement 16 requires governments to accrue liabilities for vacation leave and other leave related only to length of service as the benefits are earned, as long as the benefits were earned though prior service and it is probable that the government will compensate the employees for the unused leave time.

Governments have two options for reporting liabilities associated with sick leave and other absences contingent upon a specific event outside the control of the government or the employee, such as illness or jury duty. First, if it is probable that a government will compensate employees for unused time with cash payments, then liabilities should be accrued as the benefits are earned. However, the liabilities should be accrued only to the extent that the payments will probably be made when the employee leaves the government’s employ, rather than the leave time actually being used. This is called the “termination payment method.” Alternatively, the “vesting method” involves estimating the liability based on sick leave accumulated at the end of the fiscal year by employees eligible to receive cash payments for their leave, as well as employees expected to become eligible.

- What types of compensated absences have governments reported and in what amounts? How have these amounts changed over time?
- Which option have governments chosen for reporting sick leave and other compensated absences with similar characteristics? How have amounts reported using the termination payment method compared with those reported based on the vesting method?
- What difficulties, if any, have arisen in the application of Statement 16?
- How important is the information produced by Statement 16 to users? How have they used this information?

Fiduciary Responsibilities

The objective of this project would be to assess whether additional guidance should be developed regarding the application of the criterion “fiduciary responsibility” in deciding whether and how governments should report fiduciary activities, such as employee benefit plans and prepaid tuition arrangements, in their financial reports. Statement No. 14, *The Financial Reporting Entity*, states that a primary government should include a fiduciary activity (for example, employee benefit plans) as a trust fund if the government “has a *fiduciary responsibility*” the activity, even if the organization that administers the activity (for example, public employee retirement systems) does not meet the criteria for inclusion if analyzed as a potential component

unit. However, existing standards provide no guidance regarding what characteristics that should be considered when deciding whether an employer government has fiduciary responsibility.

- What activities have governments routinely reported as trust funds in their financial statements? What activities, if any, that *should* be reported as trust funds are routinely *not* reported in that manner?
- What difficulties have preparers and auditors encountered in applying the relevant portions of Statement 14?
- How do users utilize the information about trusts in the fiduciary fund financial statements? How important to users is information about fiduciary activities that governments are not reporting as trust funds? What important information about fiduciary activities do users need but are not currently receiving?
- What criteria would be useful to the identification of fiduciary responsibilities?

Financial Performance Measurements

The objective of the GASB's potential project on financial performance measurement is to determine the best method to present changes in fair values in the government-wide statement of activities, the governmental funds statement of revenues, expenditures, and changes in fund balance, the proprietary funds statement of revenues, expenses, and changes in fund net assets, and the statement of changes in fiduciary net assets.

A question about how fair value changes in investments should be reported arose during the deliberations of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. More recently, the issue has arisen in conjunction with the project on derivative instruments. The options for presenting changes in fair value in the statement of activities are many and include:

- A program revenue or expense
- A separate line below general revenues, special items, and transfers
- A separate column, possibly added to the governmental or business-type activities columns.

Because issues of reporting changes in fair value are not conceptually unique to investments or derivatives, it is important to consider reporting changes in fair value from a broader perspective of fair value changes in any type of asset or liability. Thus, the overall research questions are:

- How should fair value changes in assets or liabilities be recognized in a government's flows statements (for example, statement of activities)?
- Should reporting be different if the asset is a financial asset rather than a capital asset?
- Should the reporting for changes in fair value associated with a program expense or revenue be different from the reporting of changes associated with general revenue?
- How should fair value changes associated solely with the passage of time, such as accrued interest, be reported?
- How would financial reporting show the effect of a change in fair value that occurs due to a sale or settlement?

- How would users perceive different presentations of fair value changes and which presentation would provide the most useful information?

Government Combinations

The objective of this potential project would be to consider the financial reporting requirements for government combinations through annexation, consolidation, or other means, with the possible exception of a *purchase* of an organization by a governmental unit. Historically, when governments have been combined—for example, when a city and county joined together to form a consolidated government—the financial reporting guidance generally followed was provided by Accounting Principles Board (APB) Opinion No. 16, *Business Combinations*, specifically the “pooling of interests” guidance. The provisions for pooling were eliminated from the FASB literature in June 2001, but remain in effect for governmental entities based on the GAAP hierarchy.

- What types of government combinations have occurred by means other than purchases? What types of organizations have been purchased by governments?
- How have governments accounted for and reported combinations with other governmental entities and purchases of organizations in their financial statements and note disclosures?
- Does pooling of interests remain an appropriate method for accounting for combinations with other governmental entities? What other methods might be appropriate? How do the methods compare in terms of their impact on the financial statements and the information they provide for users?
- What methods of accounting would be appropriate for purchases?
- What information do users need regarding government combinations and purchases of organizations? How do or would they use such information?

Infrastructure Reporting

The objectives of this potential project would be two-fold. First, the project would explore how state and local governments have implemented the infrastructure reporting provisions of GASB Statement 34. (See the entry above on the financial reporting model.) This part of the project would pay particular attention to governments that have applied the modified approach to reporting infrastructure. Second, this project would consider whether reported changes in asset condition levels associated with the modified approach can be measured in monetary terms that meet the qualitative characteristics for financial reporting.

Modified Approach

The basic requirements of Statement 34 for capital assets, including infrastructure, involve reporting and annually depreciating historical cost. However, if a network or subsystem of infrastructure assets is managed with a qualifying asset management system and a government can document that the infrastructure is being maintained consistently at a physical condition level established by the government, then the government may report the infrastructure using the “modified approach.” Under the modified approach, the costs of preserving and maintaining the infrastructure at that condition level are reported as expenses rather than depreciation.

- What share of governments of various types has opted to use the modified approach?
- What types of infrastructure are being reported using the modified approach?
- Are governments appropriately applying the modified approach? For example, does the asset management system have the required characteristics? Are infrastructure assets being preserved at the established condition level? Is capitalization limited to additions or new assets?
- Are governments presenting the required supplemental information (RSI) regarding condition levels and estimated and actual preservation costs?
- What does the information being presented as RSI say about the infrastructure? What is happening to physical condition over time? How does actual preservation spending compare with estimated preservation costs?
- Have governments revised their established condition levels or made other significant changes in methods or assumptions? If so, have they disclosed these changes and their impact on the amount to maintain and preserve the infrastructure in the current year?
- How have users utilized the information produced by the modified approach?
- Should the modified approach be applied to capital assets other than infrastructure?

Preservation Method

One alternative approach to reporting infrastructure considered by the GASB during the financial reporting model project was the “preservation method,” which proposed reporting a capital use charge based on changes in an asset’s condition level in the statement of activities. The preservation method was not included in Statement 34 due to measurement and other issues, but the Board decided to monitor whether asset management systems develop to the point that changes in asset condition levels can be measured in monetary terms that meet the qualitative characteristics for financial reporting.

- Should a change in condition of capital assets have an impact on the statement of activities? Can asset management systems produce information about changes in physical condition that can be used to determine an annual capital use charge?
- How would the capital use charge be measured? Would it demonstrate the required qualitative characteristics?
- What developments have occurred in asset management systems since the release of Statement 34? How broad is the use of such systems among governments that follow GAAP?

In-Kind Contributions

This potential project would consider providing accounting and financial reporting guidance for all in-kind contributions received by state and local governments. GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, specifically excluded “contributed services” from the guidance provided in that standard. Other GASB standards relevant to in-kind contributions have similarly excluded them. The only guidance available to governments as other accounting literature (not required by GAAP) is FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, which 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.”

- What types of in-kind contributions do governments commonly receive?
- How do governments account for and report the in-kind contributions they receive?
- Should in-kind contributions be displayed or disclosed in the financial statements? If so, should the guidance be applied to all in-kind contributions? What in-kind contributions, if any, would be excluded?
- On what basis should in-kind contributions be measured?
- What information do users need about in-kind contributions? How would they use that information?

Popular Reporting

The objective of the potential project on popular reporting would be to determine whether guidance should be issued for the preparation of popular reports to the citizenry and, if so, the type of guidance that should be issued. Popular reports are considered general purpose external financial reports that are not structured around basic financial statements, notes to basic financial statements, and supporting information. That is, popular reports are separately issued financial reports.

The GASB published a research report, *Popular Reporting: Local Government Financial Reports to the Citizenry*, in 1992. The researchers and authors of the report, Frances Carpenter and Florence Sharp, described current reporting practices, reported on surveys and interviews with preparers of popular reports, discussed factors that should be considered when developing a popular report for citizens, and discussed and prepared a prototype popular report for use by citizens.

Current popular reporting practices are not the same as they were in 1992. An understanding of the changes in reporting practices would be of particular interest to the GASB. Therefore, the GASB would like to have the 1992 research report updated. In particular, the following research questions would be of interest:

- What are the current reporting practices of those governments preparing popular reports?
- What are citizen perceptions of popular reports? Are they aware the reports exist? Can they understand the reports?
- What should be the content of an effective popular report?
- What criteria, if followed, would result in an effective popular report directed to citizens?
- What challenges do preparers have when developing popular reports?