

## Request for Research

Since its formation in 1984, the Governmental Accounting Standards Board (GASB) has encouraged academicians to conduct research that would be relevant to the GASB's standards-setting activities. Over the past 22 years, such research efforts have resulted in academicians' publishing their research in 21 GASB research reports and in numerous journal articles.

The GASB hopes to encourage more collaborative research efforts with academicians by offering a \$5,000 research grant to be awarded by June 15, 2007. 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 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:

1. *Research on existing standards.* What issues arise as governments attempt to implement a new standard? How are users incorporating the new information into their analyses and decision making? Have standards accomplished what they were intended to? Do they provide the information that financial analysts, legislative staff, citizen groups, and others need to perform analyses and make decisions?
2. *Studies of accounting and financial reporting issues that may require standards setting.* Do problems exist that need to be solved through standards setting? Are there important information needs that are unmet that could be addressed through standards setting?

This paper describes a few topics and research questions that the GASB would like your help in researching.

## **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 financial reporting standards. We encourage you to be a part of the GASB team by researching some of the questions raised in the next section of this paper.

## **RESEARCH QUESTIONS**

The purpose of the grant is to help the GASB answer the following research questions related to the GASB's new financial reporting model, a project on the GASB's research agenda, and two projects that come from the GASB's potential projects list. *For purposes of applying for a research grant, you should plan to answer as many of the questions related to one of the five bold-faced topics in this section as you can.*

### **Financial Reporting Model**

The objective of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, is “to enhance the understandability and usefulness of the general purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors” (paragraph 1).

*MD&A.* Management's Discussion and Analysis (MD&A), one of the additions required by Statement 34, is designed to enhance the understandability and usefulness of a government's financial report by introducing the basic financial statements and by providing an analytical overview of the government's financial activities. Paragraph 11 of Statement 34, as amended by Statement No. 38, *Certain Financial Statement Note Disclosures*, requires eight items to be included in a government's MD&A.

- Are the eight items sufficiently discussed in governments' MD&A? Does the discussion extend beyond the eight items?

- Based on a review of financial statements, are governments providing adequate information in MD&A that would allow a reader to understand the reasons that a government’s financial position improved or deteriorated during the year? Are governments including the relevant information necessary to make this assessment? If not, what information is not being included?

*Fund statements.* Statement 34 changed fund financial statements significantly with the shift in focus from *fund-type* reporting to *major fund* reporting. Statement 34 requires fund statements for both governmental and proprietary funds to present financial information for each major fund in a separate column, with nonmajor funds aggregated and displayed in a single column.

- Does the presentation of major funds and nonmajor funds in the aggregate provide adequate information to users of fund statements? If not, what additional information do they need? How would they use the information?

*Reconciliations.* Statement 34 requires governments to include a summary reconciliation on their fund financial statements or in an accompanying schedule. For governmental funds, total governmental fund balances are reconciled to net assets of governmental activities in the government-wide statement of net assets, and the total change in governmental fund balances is reconciled to the total change in net assets of governmental activities in the government-wide statement of activities.

- How useful are the reconciliations to users of financial reports? What information do users obtain from the reconciliations and how do they use that information?

### **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. The GASB’s principal focus for its current research is to consider whether any additional information useful for assessing a government’s economic condition should be required or encouraged for inclusion in a government’s financial report.

One of the most important aspects of the GASB’s 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?

## **Electronic 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 will provide the Board with a basis for evaluating the need to develop standards for financial reports intended for this medium. During the development of the Board's initial strategic plan in 1997, and the succeeding plan in 2004, 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 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 which 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 has been discussions about how XBRL could be used by readers of governmental financial statements.

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

## **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; in the proprietary fund's statement of revenues, expenses, and changes in fund net assets; in the governmental fund's statement of revenues, expenditures, and changes in fund balance; and in 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 derivatives and hedging. 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 and hedging, 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 be different for changes in fair value associated with a program expense or revenue, and 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?

Because a part of the GASB's mission is "to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports," research on financial performance measurements should emphasize the needs of users and how they would perceive different presentations of fair value changes.

### **Popular Reporting**

The objective of the GASB's potential project on popular reporting is 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 presented with basic financial statement. 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 criteria, if followed, would result in an effective popular report directed to citizens? What challenges do preparers have when developing popular reports?

- What should be the content of an effective popular report?

## **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 the questions raised for one of the four topics in the *Research Questions* section of this paper, send a request for research funding to David Bean, GASB Director of Research and Technical Activities, by **June 1, 2007**. The request for research funding should be attached as a Microsoft Word document in an e-mail to [drbean@gasb.org](mailto: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, etc.), 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 GASB's parameters for reporting back to the GASB that is described in the next section.)

If you have any questions regarding the content of the request for research funding, please contact Terry Patton, GASB Research Manager, at (203) 956-5203 or [tkpatton@gasb.org](mailto:tkpatton@gasb.org).

The GASB will make a determination of the recipients of the research grants by June 15, 2007, 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.

<b><u>Date</u></b>	<b><u>Activity</u></b>
June 1, 2007	Request for Research Funding Due
June 15, 2007	Research Grant Recipients Determined
September 15, 2007	Initial Report to GASB Staff on Status of Project and Data Collection
December 31, 2007	Provide Update on Status of Research to GASB Staff
April 15, 2008	Summary of Preliminary Findings of Research to GASB Staff
August 15, 2008	Final Research Memorandum Due