

REQUEST FOR RESEARCH: SEVERE FINANCIAL STRESS

The Governmental Accounting Standards Board (GASB) has been conducting pre-agenda research on Going Concern Disclosures for the past several years. The research constitutes an evaluation of the effectiveness of the existing standards related to going concern in Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, including examining the measurement and reporting of severe financial stress.

The GASB is seeking proposals from academics and other researchers for studies that would complement the research that the GASB has performed or funded through research grants thus far. As an extension of the annual grant awards in its Gilbert W. Crain Memorial Research Grant program, the GASB would like to provide grants to support research that would statistically evaluate approaches to identifying, measuring, and reporting on severe financial stress among state and local government entities.

The deadline for submitting a proposal is September 30, 2020.

Background

Relatively few state and local governments cease to exist. Unsurprisingly, the appearance of a going concern disclosure in governments' notes to financial statements is a rare occurrence. Therefore, a key focus of the GASB research has been whether it is possible for governments to provide valuable information to financial statement users at a point prior to a government facing bankruptcy or closure. Specifically, the GASB has been studying the identification, assessment, and reporting of severe financial stress.

The GASB has conducted a literature review, interviews with state government-based financial monitoring programs, and a survey of financial statement users. In addition, the GASB provided Crain Grants to support three studies as components of the research. The most recent of those studies developed a statistical procedure for identifying the severity of financial stress governments face relative to other governments. That study utilized a data set of dozens of data points from audited

financial statements for a random sample of 500 large governments for fiscal years 2011–2015.

The ultimate objective of the GASB’s pre-agenda research is to provide the Board with sufficient information to decide whether it should add a standards-setting project on going concern disclosures, including several financial stress. The purpose of this Request for Research is to ensure that the Board has a comprehensive body of research findings that it can use to make that decision.

Potential Research Proposals

The GASB hopes to engage academics in complementary statistical analyses by offering research grants of \$10,000 to \$20,000—depending on the nature and size of the study—to be awarded in October 2020.

An important consideration for the research funded by those GASB grants is the ability to operationalize the methodology for use by a typical government. Much of the existing research on financial stress—though informative to the GASB’s work—involves a complex statistical methodology or requires comparing a government with a robust database of information about other governments (which does not currently exist). Consequently, that research does not provide the basis for developing procedures that a typical government could follow to assess its exposure to severe financial stress and, thereby, determine that it would need to present a disclosure.

The GASB is seeking proposals for research that (1) demonstrates reliable methods for identifying when a government is exposed to severe financial stress and (2) provides a model for developing procedures that governments of various types and sizes could realistically perform. With regard to the latter, the GASB is seeking proposals that examine *either* taxing entities (counties, localities, independent school districts, and taxing districts) or business-type entities (such as utilities, hospitals, and colleges and universities).

Preference will be given to proposals that feature one or more of the following:

- A random sample that includes small, medium, and large governments, based on annual revenue
- An approach to assessing financial stress unlike the existing research described above—for instance, identifying severe financial stress by examining changes over time in relevant indicators
- Financial indicators that are complemented by relevant economic, demographic, or nonfinancial measures.

Timetable for Proposing and Conducting the Research

The following table shows the critical dates for requesting research funding, conducting the research, and preparing the final research memorandum.

<u>Date</u>	<u>Activity</u>
September 30, 2020	Request for Funding Deadline
October 16, 2020	Grant Recipients Determined
October 30, 2020	Grant Agreement Finalized
November 27, 2020	Methodology Finalized in Consultation with GASB Staff
January 29, 2021	Initial Update to GASB Staff on Progress of Research
April 30, 2021	Preliminary Report to GASB Staff
June 30, 2021	Draft Research Memorandum Due
July 30, 2021	Final Research Memorandum Due

Content of the Research Memorandum

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

- A discussion of the background, purpose, and scope of the research
- A thorough discussion of the research design and the appropriateness of the research method used, including relevant analytical and methodological literature
- A thorough discussion of the data-collection process
- A detailed analysis of research results
- A discussion of the limitations of the research
- A summary and conclusion, including a discussion of what has been learned by conducting 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, if appropriate. The GASB anticipates that the text portion of the memorandum would be approximately 25 pages or longer (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.

Submitting a Request for Research Funding

If you are interested in requesting research funding, send a request for research funding to David Bean, GASB Director of Research and Technical Activities, by **September 30, 2020**. 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:

1. A description of how you believe your research will contribute to the ability of the GASB to set standards for governments to identify, assess, and report severe financial stress
2. A thorough description of the research design that you plan to use; that discussion should be as specific as possible and, at a minimum, include a description of the research method(s), why you believe the method is appropriate, and a description of how you expect to collect data for the research
3. A description of any limitations that you foresee regarding the validity of your research results
4. A timeline for completing the research and preparing a final report for the GASB; that timeline should meet the parameters for reporting back to the GASB, which are described above
5. Your CV or resume
6. One or two articles, reports, or papers for which you are the primary author and which demonstrate your ability to perform the research and write the memorandum.

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

The GASB will notify the recipients of the research grants in October 2020. The recipient will receive 30 percent of the grant after they sign the agreement with the GASB. The agreement will explain the duties and responsibilities of the GASB and recipient and will describe the deliverables that the GASB expects from the recipient. The recipient will receive another 20 percent upon delivery and the GASB's acceptance of the preliminary report on the findings of the research. Upon completion of the research and the GASB's acceptance of the research memorandum, the remainder of

the grant will be sent to the recipient. The grant recipient may share the grant with others who help conduct the research.

How Conducting Research with the GASB Can Benefit You

The GASB hopes that research grants will encourage researchers to conduct research that is beneficial to standards setting for governmental accounting and financial reporting. Researchers benefit by working with GASB staff members and by learning more about the internal workings of the standards-setting process. The GASB staff also may be able to help by introducing you to professional organizations and knowledgeable individuals and by encouraging them to participate in your research. Upon request after completion of your research, the GASB will send a letter of appreciation to your university for allowing you to participate in an important GASB research effort.

We encourage researchers who receive a grant to submit the results of their research for publication in a journal or presentation at a conference after the research results have been submitted to the GASB. 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 effort. 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 one of the topics identified in this call for proposals.