Dear Mr. Bean:

On behalf of the Rutgers Center for Governmental Accounting Education and Research (CGEAR), kindly accept the following comments on the Proposed Statement of the Governmental Accounting Standards Board on concepts related to Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements, an amendment of GASB Concepts Statement No. 3. I would particularly like to thank the Board and its staff for giving me an opportunity to participate as a member of the task force, which examined and deliberated upon the various key issues addressed in the concept statement. In addition to the input that I had earlier provided, there are two important areas that I believe the Board should consider as it deliberates on this concept statement.

The evolution of government financial reporting through new technology

Since the notes to the financial statements comprise a major portion of a government's comprehensive annual financial report (CAFR), there is an increasing inference on the part of the preparer's community regarding the substantial time and effort required to prepare the footnotes each year. However, this effort should be viewed in the context of providing accountability to and educating our citizens, an important group of stakeholders. These individuals are quite different from the investors who review corporate financial statements.

As an academic, I frequently hear from undergraduate accounting students who are enrolled in governmental accounting classes that despite their accounting background, they would have never understood a government's CAFR without these courses. By assuming that general readers of the financial statement possess sufficient knowledge of governmental accounting, we could be excluding several important stakeholder groups. The comprehension of the notes should not require the user to be conversant with governmental accounting principles, thus leaving their interpretation to only those who possess this knowledge.
New technology allows us to fulfill the role of informing our citizens on government accountability through well-written footnotes as well as allowing more informed users detailed information contained in the financial statements. I believe the notes should meet the needs of all the stakeholders, from citizens to creditors, policymakers, and government managers. For instance, the use of in-line XBRL can let any user not only to directly access the notes from an element contained in the financial statement, but can also be used to describe the nature of this element. Even though this may represent an initial investment on the part of the government, the benefit to the general citizenry would be tremendous. I believe it is crucial that we begin to think of the CAFR not as a printed document but rather as one which can carry additional dimensions that can be used to communicate more effectively with all stakeholders. Therefore, with the use of technology, we can transform government financial reporting that enables notes presentation based on the user’s level of knowledge.

The implication of using cost-benefit analysis for Notes to Financial Statements

When examining the issue of cost-benefit analysis, it may appear rather nebulous, as it can be construed and interpreted differently by each individual. It is difficult to properly measure and define the benefits to the stakeholders of what is considered “essential”. Once again, we need to consider the potential benefits of making notes to financial statements understandable to the citizens. Since GASB currently does not require governments to issue a citizen’s guide to government financial statements, this is all the more important. Governments should not be precluded from voluntarily reporting information contained in the footnotes that they feel would be useful and of an educational nature to its stakeholders.

Finally, I would strongly urge the Board to embark on an effort to allow readers who do not possess expertise in governmental accounting to be able to review and comprehend government financial reports. During these times, when governments are under increasing fiscal pressures and as government financial reporting becomes more complex, it is important that the notes to the financial statements play a pivotal role in a user’s understanding of the financial reports. Footnotes that increasingly rely on technical terms without appropriate background and context will tend to be of limited use to the general reader. It is all the more important that this far-reaching concept statement recognize and encourage greater readability of government financial reports.

I would be pleased to respond to any specific questions regarding these comments and answer any further questions regarding this matter.

Sincerely,

Professor Irfan A. Bora, CPA, CMA, CGFM, MBA
Director, Master of Accountancy in Governmental Accounting
Rutgers Business School
100 Rockafeller Road, Piscataway, NJ 08854