March 26, 2017

Mr. David Bean

Director of Research and Technical Activities

Governmental Accounting Standards Board

Project No. 3-251

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Dear Mr. Bean:

On behalf of Team 1 at John Jay College for Criminal Justice 2017 Spring Term (1) Public Sector Accounting and Auditing PAD 742 01[9639] (John Jay College), we are honored to participate and respond to this Invitation to Comment (ITC) of the Governmental Accounting Standards Board on issues related to Financial Reporting Model Improvements-Governmental Funds. We agree with the Boards goal of having a conceptually consistent basis for government funds within GAAP, and appreciate and support the approach that will provide more consistent accounting standards, and provide the greatest useful information to all concerned parties and stakeholders.

Our comments to four areas of concern are listed below.

**Approaches 2.3. Which of the three recognition approaches provides the most relevant information for assessing fiscal accountability of the government? Why do you consider that information most relevant?**

The three recognition approaches to review alternatives for the recognition approach for governmental fund financial statements are:

- Near-term financial resources approach (near-term approach)
- Short-term financial resources approach (short-term approach)
- Long-term financial resources approach (long-term approach).

The three recognition approaches provide a spectrum of alternatives related to which assets, deferred outflows of resources, liabilities, and deferred inflows of resources are reported in governmental fund financial statements. (Board, December 7, 2016)
The near-term approach reports balances and flows from a near-term perspective. The length of time in of the reporting period for the near--term approach is between 60 and 90 days. It is consistent with developing a conceptually sound foundation of assets and liabilities. Mostly, the near term approach is a simpler way of accounting for the government, as it uses less accounting tables. It is also much easier in communicating where the fiscal concerns are. This approach sometimes overstates the balances available. An example would be the anticipation of future tax revenue, which has not occurred and may not be realized.

The short-term approach reports on the government’s one-year fiscal period. Also referred as the “Working Capital” approach, it includes financial resource inflows and outflows for the period. This includes cash, claims of cash, goods and services, consumable goods, and equity securities. This approach also assesses the government’s ability to meet service needs and pay obligations in the subsequent operating cycle. The challenges of short-term approach are that uses are not accustomed to short-term flows when thinking of long-term concerns, such as future pensions and other long term liabilities.

The long-term approach recognizes events as they take place. It does not look at if the cash was received or not. Also referred to as “Total Financial Resources”, this includes cash, claims to cash, claims to goods or services (such as prepaid items), consumable goods (such as inventory), and equity securities of another entity. (Board, December 7, 2016) This approach provides a better basis for assessing equity. It simplifies he financial reporting model by having the government approach fir funds more closely with government wide financial statements. The downside to this is that it treats capital assets and capital related debt differently from other assets and liabilities.

Of the three recognition approaches that provide the most relevant information for assessing fiscal accountability of the government, the short-term financial resources approach, appears to provide the most information needed. In the short term, approach, which looks at budgets of up to one year and after, it would fall in line with most yearlong budgets. It does provide an opportunity to take corrective action, but leaves enough time for the accountants to see a bigger picture. It is important to note that fiscal responsibility must reflect a shorter time perspective when evaluating government wide financial reporting. The short-term financial resource accomplishes this best. The greatest accomplishment that the short-term approach offers is that it is focused on a one-year cycle. It provides inflows and outflows that are easily recognizable. Any discrepancies ought to be addressed immediately. This approach also helps the government in assessing its ability to meet service needs and pay obligations in the subsequent operating cycle. Nothing gets too out of hand with this approach. It is based on the financial statements of symmetry for assets and liabilities.

The downside of the short term approach is it does not recognize long term receivables and payables. This is especially true of pension costs, which can escalate more quickly than possible anticipated revenue. This can easily be approached by looking at long term actuarial tables, and
making adjustments. This downsize is not so great to outweigh the wicker proactive approach the short term approach provides. Also, it does not take into account long term events such as inventories that may or may not be consumed in a one-year cycle. Also capital assets are not recognized in the short-term approach.

In viewing all three approaches, the short term approach would be considered superior to the other three. It is a much simpler method for accountants in both small and large government agencies to undertake. It provides an almost instant reaction to discrepancies, and of the three approaches, it provides the greatest accountability. Although the definition of fiscal accountability would indicate the shortest method is the best method, the neat term method does not give the accountant or agencies a view of the bigger picture. The near term approach would cause many governments to be reacting to unanticipated events, and causing any fiscal plans that were put in place to be abandoned. The short term approach provides a better balance of proper planning, fiscal responsibility and superior oversight.

Approach 2.5. Views vary on the definition of financial resources—a concept integral to all three recognition approaches. (See the discussion in paragraphs 38–40 of Chapter 2.) What definition of financial resources provides the most valuable information? Why? Do you consider prepaid items to be financial resources? Why? Do you consider inventory to be financial resources? Why?

The near-term approach provides the most valuable information. Looking at the list of assets that are not considered recognizable shows me several items that are mostly fixed assets. Those items include prepaid goods, inventory, capital assets, and long term receivables. Assets are sources of future monetary value and differs from unrecognizable assets which are known for being fixed asset, and not likely to quickly be converted into cash in the future. The listed items which aren’t listed as items also seem to be related to more long-term activities or activities that recur. The near-term approach does a good job of separating expenditures and listing the financial sources that can be converted into cash. With this approach, information is neater and there is a better understanding where recognized and unrecognized assets are and what the actual sources are. The list of recognized asset items includes cash and investments, accounts receivable, property tax, and long term receivables.

In government accounting we do not consider prepaid items a financial source. Prepaid items are considered goods, but are treated as a purchase method. What we understand is that the prepaid service or good is considered expenditure instead of an asset which is a financial source. We also do not consider inventory to be a financial source. Reason being is that inventory is a form of a consumable good, which means it cost money and is often re-used for long term, and must be replaced. Inventory, similarly too prepaid is expenditure and is treated as a purchase method.
Approach 2.7. Paragraph 6 of Chapter 2 discusses same-page reconciliation to government-wide information and the use of specific terminology to more clearly communicate that the information in governmental fund financial statements is of a shorter time perspective than information in the government-wide financial statements and focuses on financial, rather than economic, resources. Are these changes effective in communicating that the information in governmental fund financial statements is different from the information in government-wide financial statements? How could those differences be communicated more effectively?

*Governmental Fund Financial Statements*

Governmental fund financial statements show more detailed information about primary government. They are prepared using current financial resources measurement focus and modified accrual basis of accounting. Funds are created to show restrictions on the planned use of resources or to measure short term.

*Government-Wide Financial Statements* are able to use economic resources measurement focus and full accrual basis of accounting. These statements report information about the government as a whole without displaying individual funds or fund types.

*Reconciliation* is able to convert the data in the government fund. Data is adjusted from modified accrual basis to the full accrual basis statements. Conversion is performed on the figures at the total governmental fund level.

We believe that the changes are effective in communicating that the information in governmental fund financial statements is different from the information in government-wide financial statements. The same page reconciliation allows for the user to see that the current figure might not reflect the true position of government finances because there are other accounts that have an effect on financial position that are not included in the statement. The difference results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.

In appendix D 4a the figure of $946,350 (net change in near-term financial resources fund balances) is taken from the total governmental funds and the reconciliation is shown below the statement. Users of the financial statement can see that $686,500 of the revenue does not provide near-term financial resources and that $4,642,130 of the expenses does not require the use of near-term financial resources. However, they can also see that $18,875 of internal service fund activities are allocated to governmental activities in the statement of activities and $9,604,926 is principal paid on long-term debt and related items reported as near-term resource outflows.
Approach 3.2. Should a statement of cash flows be required for governmental funds? Why?

Statement of cash flows should be required for governmental funds. These statements are financial statements which are able to depict the balance accounts and income accounts which operate within an organization. Cash flow statements are able to break down the operative and financial component activities within government agencies.

Cash flows are responsible for illustrating the financial movement that occurs within specific periods of time. Cash flows are essential, due to the nature of accounting present in these statements. Governmental agencies need accurate cash flow for various reasons. Primarily cash flows are vital to keep control and take account of where the money is going and where money is coming from. Governmental agencies are businesses which depend on employees, operating expenses, procurement, benefit finding, investments, inventory, expenses, and other significant factors. To take into account and monitor every aspect of the agency, accounting becomes a main player. Positive cash flow in essence, is known to make any business thrive because that means that more money is generated, hence profits are increasing.

Cash flows are needed in order to compare and contrast short-term and long-term financial components in government organizations. In order to provide recommendations for future accounting oversight, cash flow statements are a good tool. The quantitative measures in cash flow statements lead to analysis and identifying the issues that need to be taken care of to prevent mistakes, negative balances and/or inaccuracies. However, it is noted that cash flow statements are not free from errors. Any financial report can include minor errors because there are times where numbers are not reported correctly. Regardless, cash flow statements created and administered correctly should still be a tool enforced by governmental agencies because they cause better good than harm.

Another reason why cash flow statements are important is because they can be a good resource to the public who want to research how governmental agencies are appropriating their funds. Of course, the public may not get all the information or data they are looking for from a financial report released by a governmental agency, however they can get a general overview of what is taking place. The checks and balances protocol is essential and effective. Cash flow statements provide a checks and balances process. Overall, cash flow statements are still relevant since official business entities require them such as, grantors, lenders (as well as potential lenders), and officials.

Governmental funds should require a statement of cash flows because they are paper trails that are a fundamental part of the accounting process for an agency to continue making ethical and smart economic/financial decisions. It is clear that any financial decision made within the government agency will affect future operative, financial, and investing operations (as well as analysis reporting). However, a positive note that reflects government accounting reporting today
is the implementation on new standards on split-interest agreements. Overall split-interest agreements are known as fixed payments or can be viewed as planned giving contributions. These procedures are important because they work towards building future short-term financial resources and long-term financial resources for any agency.

The goals of the Governmental Accounting Standards Board on issues related to Financial Reporting Model Improvements-Governmental Funds are noble. We appreciate the opportunity to comment. The overall goal ought to be a uniform method of accounting principles that are easily understood of all government agencies.

If there is a need for further information, on our comments, we may be reached at 631-255-9108. Thank you for this opportunity to participate in the Invitation to Comment.

Respectfully submitted,

Team One, John Jay College of Criminal Justice Graduate students.

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References

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