DATE: March 31, 2017

Director of Research and Technical Activities

Project No. 3-25I

RE: Invitation to Comment – Financial Reporting Model Improvements

Thank you for the opportunity to comment on “Financial Reporting Model Improvement – Government Funds.” Our responses were for four questions that caught our interest for Chapter 2: Recognition Approaches for Governmental Fund Financial Statements.

**Question 2.2:** Do you believe that governmental fund financial statements should continue to present information that facilitates comparisons with a government’s budgetary information? Why?

We believe that governmental fund financial statements should continue to present information that facilitates comparisons with a government’s budgetary information to ensure accountability for the use of public funds. Financial statements are written records of the financial status of an individual, business, or government entity. It includes a balance sheet, an income statement (or operating statement or profit or loss statement), and may include a statement of cash flows showing inflowing and outflowing.

The comparison to the budgetary information shows how the information presented on governmental fund financial statements relates to the budget. It allows auditors and stakeholders the ability to view the budget as the initial starting point and comparing it with the current progress public funds. This is a way of identifying fraud, waste, and irregularities. Governmental fund financial statements should present information with consistency and its contents should be as informative and inclusive as possible so they could effectively serve the purpose of alerting over misuses or mismanagement. It serves to show how well the government is doing in financial planning. These statements are important for seeing changes in retained earnings as
well as being a primary source of data for assessing results, efficiency, and the financial well-being of a government.

Question 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?

Fiscal accountability is the responsibility of governments to justify the gaining and the use of public funds over a set period of time. It reflects a shorter time perspective than that conveyed by the information in the government wide financial statements and focuses on financial, rather than economic, resources. Contrary to the definition of fiscal accountability provided, we believe that the recognition approach that GASB should adopt and provides the most relevant information for assessing fiscal accountability of the government would be presented in the long term perspective.

The long term approach provides the most relevant information because it shows a complete and accurate data of government funds. Time gives the long term approach an advantage over the other two. It provides government wide statements that show both current and long term liabilities in addition to an operating statement. Inflows and outflows can be compared to that presented in a budget. This is different from the short term perspective as the accounting for the may be incomplete or misleading. The long term approach would help the public assess and determine whether the government has the ability to meet service needs and pay obligations.

Question 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?

We consider prepaid items financial resources because they have the expected value to be use towards a purchase in the future or turn into cash such as rent, insurance, office supplies, postage, travel expense, or advances to employees. We also consider inventory a financial resource because it has the capability of having value to be used in the future. Both, prepaid items and inventory, can be converted to cash, therefore they are considered financial resources.
**Question 2.6:** For the recognition approach that you believe provides the most valuable information, how would you change that recognition approach to provide information that is more valuable? How would those changes make the information more valuable?

Near term, short term, and long term are the three recognition approaches and each provides a spectrum of alternatives depending on the type of resource or expenditure one is looking for. Though each approach is valuable and has their advantages and disadvantages of some sort, we decided that the Long-term perspective is the most valuable.

Stakeholders, auditors and the citizenry will be greatly satisfied if GASB will target financial transparency and accountability by utilizing modern IT advances. We would make the system very user friendly by structuring the information by including interactive graphs, charts and tables so that the regular citizen is able to see at a glance whether the government has economic stability and solvency or not and whether the reporting is complete and transparent or lacks relevant information. We believe that if all reports are standardized it would be much easier to recognize when a government fails to disclose relevant information or discloses misleading information.

Long term approach does not recognize capital assets and capital-related debt. To recognize these two areas of opportunity will make this approach even more valuable. Showing capital (intangible) assets, like patents, name recognition, and intellectual property in opposition of physical assets can help the public.

Another suggestion will be to score both the economical solvency and the transparency/disclosure levels through scores just like the credit scores. I think scores of this nature would be of valuable relevance for those that lack the understanding accounting to analyze the information on their own but at the same time are interested on knowing where their governments stand across the board.

Best Regards,

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