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Better Measurement of Governments through the Application of Accrual Accounting for Government-Wide Financial Statements

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Table of Contents

Abstract

In this paper, we will look at and discuss the differences and similarities between governmental entities and for-profit business. We will mainly discuss the different goals, purposes, users, and issues between government and for-profit accounting in order to show that changes to governmental accounting standards would lead to more transparency and accountability, which in turn would help determine the success of an individual governmental entity. We will conclude by looking at countries that have implemented accrual accounting for government-wide financial statements, and we will explain how the adoption of accrual accounting for government-wide financial statements in the United States will lead to more transparency and accountability.

Introduction

A major question in today’s world is how we should measure the success of our government. Every couple years, citizens vote on officials that will make important decisions within their country, state, county, or city that affect their day-to-day lives. Government is similar to businesses in that it provides services to “customers” and requires a fee in return for most of those services. However, businesses can look at their profits to determine whether they are successful in their strategy and programs. For governments it is not as cut and dry.

First, governments operate using budgets; officials within the government determine how much and which services they will provide and then they determine how they will cover the costs. If at the end of the period the government has more revenues than expenses, the government created a surplus. This does not have the same meaning as positive net income for a business because governments can achieve surplus in many ways: efficiency, cutting programs, or unexpected events. Governments typically try to operate so that neither a surplus nor deficit is created. If a government operates at a surplus that means that the government had resources to spare at the end of the fiscal year. This can happen a couple of different ways: the government could have saved on services that they provided, or the government could have discontinued some service(s) that is no longer viable or needed. If the government operated and created a deficit it means that the government either acted inefficiently with its resources or it began to provide a needed service without acquiring the needed funding; for example, governments provide pension benefits without acquiring all of the needed resources. It is possible for both a surplus and deficit to be either positive or negative and it is therefore important to have more information about the government than whether it created a surplus or deficit. Businesses also use budgets in their strategy, but they try to achieve maximum profits and business budgets are for internal use only.

Capitalism provides a system to allocate goods and services within the United States, but the markets do not provide all services essential to life. This is because if a business cannot make a profit from offering a service, no matter how much customers might benefit, they will cut that department in order to better the bottom line. For those services that might not be profitable or not profitable enough the government steps in to provide those essential services. However, in order to provide such services, the government collects taxes and fees. Unfortunately, most government programs are not optional such as paying taxes. This lack of mutual assent creates an obligation for governmental entities to be accountable to their citizens. This means that governments need to be transparent in their reporting and show the true fiscal position of the municipality.

Citizens have ownership of the government and they need to exercise that ownership through voting. Similar to shareholders of a company, citizens have the option to vote on certain policies and potential projects. Transparency informs the citizens and allows them to hold their public officials accountable. Furthermore, citizens will know about potential fiscal challenges facing the municipality. Governmental accounting standards differ from those of for-profit businesses, so investors looking to purchase municipal bonds might face difficulties when trying to compare the risk of government bonds versus the bonds or stocks of a public or private company.

Governmental accounting has come a long way in recent decades with many scholars writing articles discussing the failures and successes of governmental accounting. Also, the creation of the Governmental Accounting Standards Board (GASB) has helped bring governmental accounting closer to the quality of standards of for-profit accounting. Still more can change within governmental accounting standards. For example, governmental entities do not use accrual accounting practices for government-wide financial statements, which can lead to different recognition patterns. The reason many municipalities claim that they do not use accrual accounting is because they lack large amounts of receivables; governments have taxes receivable and utility payment receivables, but they do not operate with the same amount of receivables as businesses. Governments should account for the amount of unpaid utility bills or the amount of taxes that have yet to be collected; it is important for governments to manage their cash flow so that they know their current ability to cover their current expenses and obligations. The use of accrual accounting is one way that governments could become more transparent, efficient, and accountable by reflecting the realities of the economic situation.

If the government became more accountable and transparent through changes in accounting standards, citizens and potential investors would have more faith in the government. This would allow the government to acquire more resources and capital, which would allow it to provide more services and a better quality of life for its citizens, which could be seen as a measure of government success. Governments will not meet as much hostility when trying to raise taxes if the citizens have faith in their representatives, and the more that the citizens and other outside parties know about the inner workings of the government the more faith they will have in the officials making the decisions. We can see the likeliness of this situation happening by looking at the capital markets. Companies seen as accountable and transparent have an easier time acquiring capital. Wise investors will tend to avoid a company that appears to be hiding something or has unfaithful leaders. Companies with better access to the capital market can operate more efficiently and provide their shareholders with maximum profits because financing with capital instead of debt gives companies more flexibility with earned profits. In this example, the quality of life of citizens compares with maximum profits for shareholders.

In this paper, we will look at and discuss the differences and similarities between governmental entities and for-profit business. We will mainly discuss the different goals, purposes, users, and issues between government and for-profit accounting in order to show that changes to governmental accounting standards would lead to more transparency and accountability, which in turn would help determine the success of an individual governmental entity.

Chapter 1: Users of the Financial Statements

Governments publish a comprehensive annual financial report under the United States Generally Accepted Accounting Principles (U.S. GAAP) and the GASB guidelines. The report includes a Management Discussion and Analysis section as well as consolidated financial statement, which include a statement of activities, statement of net assets, and a statement of cash flows. For-profit businesses publish an annual report to the shareholders called a 10-K. Similar to governmental entities, for-profit business must publish their annual report under U.S. GAAP. But, for-profit businesses do not need to follow GASB guidelines; instead they must follow the guidelines of the Financial Accounting Standards Board (FASB). The annual report includes financial statements similar to the governmental comprehensive annual financial report, but the statements have different names. For example, for-profits businesses publish an income statement instead of a statement of activities. See (Table 1) for complete comparison of for-profit and governmental financial statements.

Table 1: For-profit financial statements v. Governmental financial Statements

Business Financial Statement	**Equivalent Government Statement**
Income Statement	Statement of Activities
Balance Sheet	Statement of Net Assets
Cash Flow Statement	Statement of Cash Flows

Many different groups look at government financial reports, and all of them have their own distinct needs and interests. This provides a difficult task for the governmental entity that tries to provide all the essential information to its financial statement users. Similarly, businesses have to create financial statements that can fulfill all the needs of their different users.

Some examples of groups that look at the financial reports of governments include legislators, administrators, taxpayers, bankers, investors, and social scientists (Taussig). The groups stated do not differ significantly from those that use the financial statements of for-profit businesses. Each group looks for similar information within the reports, so the reports from governmental entities should present the information as efficiently as for-profit businesses. These groups all differ in what information they find significant to their decision making. Also, the level of education, accounting knowledge and interest differs immensely between the above groups. We will further discuss the needs of the different financial statement users. We will also compare the information that each group finds significant in government and for-profit financial statements.

Legislators look at the financial statements of municipalities in order to make better decisions about financial policy and standards (Taussig). These decisions can involve budgets for education, health, and social welfare. Officials looking at governmental financial statements would need to see the cost of programs versus the burden on taxpayers to provide the excess cost not covered by grants and trusts. This is similar to how legislators regulate some prices for businesses such as telecommunication companies. The telecommunications industry is very competitive and it also provides an essential service to the public. The competitiveness of the industry could cause prices to increase significantly making it difficult for every person to own a phone, but the regulation allows for everyone to benefit by maintaining fair prices that still cover the companies' cost of service (Bourreau). In order for the legislators to get the best understanding of the financial statements, the reports should be presented in a way that makes the information understandable, relevant, and comparable.

Looking more specifically at utility programs, legislators need to know if the municipality charges fair prices and taxes for the services provided to the citizens. Making the financial statements more simplistic would allow for legislators to see both the bottom line and cost versus revenues of specific services easier, which would allow better decision-making. Legislators' political careers depend on their ability to ensure that the public is getting services fairly and that the government is not running a surplus by overcharging for services. Legislators always need to make sure that they make the most efficient and beneficial decisions because they need to keep the public pleased in order to stay in their position.

The above example is relevant for for-profit businesses as well. Legislators look at financial statements to see if companies are charging absurd prices for essential services that cannot be acquired elsewhere. For example, in the oil and gas industry companies sometimes collude in order to keep prices high because they know that everyone needs gas in this era. If legislators see that companies charge unfair prices for services, they will put a price ceiling or margin ceiling on the industry. Both governmental entities and businesses need to provide accurate and fair information regarding the costs and revenues of their services to legislators.

Legislators have different levels of accounting knowledge, accounting experience, and accounting interest. The types of degrees that legislators have differ immensely from business degrees to environmental policy degrees. However, not all legislators have acquired a CPA license and understand how to read financial reports. This causes another issue for municipal accountants, which need to prepare the financial statements so that most people can successfully acquire information from the reports. This issue has been addressed slightly by creating a requirement for financial disclosures, but disclosures cannot completely translate all of the complicated transactions shown on the financial statements. If governments do not need to report on all long-term assets and liabilities then no amount of disclosures could help users understand all of the government's rights and obligations.

Governmental administrators have needs similar to legislators when looking at financial statements. While administrators do not make policy, they need to follow it closely. Another duty of government administrators is to ensure that the programs put in place not only follow the regulations but also efficiently contribute to the overall well being of citizens. One part of the financial report that administrators look at for decision making is the surplus or deficit. Administrators make the budget for the governmental entity at the beginning of the period. At the end of the period, administrators will want to look at the revenues and costs of specific services in order to determine whether they should lower or raise the fees for certain services in the next period. For example if the government has a surplus in the water services department because the costs were lower than budgeted, administrators might look into lowering the fees charged to citizens in order to lower the fiscal burden on citizens.

Similar to governmental administrators, CEOs and CFOs need to look at their company's financial statements in order to determine the efficiency or success of a program put in place. The CEO and CFO of a company make the budget for the company at the beginning of the period. The budget helps make decisions on pricing and which services and products to offer. Management will look at the financial statements in order to determine which departments earn profits and which ones generate losses. They use this information in order to determine which programs to cut and which ones to allocate more resources to. Unlike governmental entities, businesses will not provide a product or a service if it does not make a profit or if it does not significantly add to operations; however, governmental administrators and company management both need to look at the financial statements for similar reasons.

Governments could not operate without the taxpayers. Citizens legally have to pay taxes, and are therefor entitled to know how the government uses their money. Taxpayers, who are also voters, can read government financial statements, and determine whether the programs they supported are working or are wasting public resources. Additionally, it allows them to hold their officials accountable. Candidates running for government positions typically have a platform that states their goals and plans. Financial statements will give the taxpayers a tool to assess the government officials' success in implementing their plans. This allows taxpayers and voters to make better decisions during the next election cycle.

Shareholders of a company resemble the taxpayers of a government; although, only majority shareholders hold the ability to individually affect decision making while all taxpayers essentially have the same weight in the decision making process. Even though shareholders have the option to invest their money in a company they still have a need to know how the company uses the money they invest. Shareholders expect to earn a return on their investments therefore, to determine if they will receive a positive return, shareholders look at the profits and also try to forecast the future earnings. Similar to taxpayers, shareholders also want to make sure that the company uses their money efficiently in order to maximize profits. If the shareholders do not like the direction that the company is headed or if they do not agree with management, they will sell their stock.

Both shareholders and taxpayers hold the symbolic role of owner, which means that both management and the government officials have a responsibility to maintain a strong sense of accountability to the "owners". Since not all shareholders and taxpayers have strong accounting backgrounds or knowledge, companies and governments both need to ensure that they present their financial information in a clear and accurate way. The government needs to show the full cost of providing services to the citizens. Using accrual accounting for government-wide financial statements would allow for the recognition of depreciation. Full cost of services would be applied to the current taxpayers instead of future taxpayers paying for past services.

Investors rely on the information provided in the financial statements in order to make the best decisions on where to allocate their capital. In this paper we will refer to investors as people looking to become shareholders of a company. This will allow us to differentiate between the needs of a potential shareholder and someone who already owns shares in the company. The needs of the investor are similar to the needs of the shareholders; however they do not need to look into how efficient management uses their capital because they have not allocated it to the company yet. However, knowing how management treats current shareholders will give prospective investors an indication about how they will be treated. The investors need to look at the current period's income statement in order to see current profit or loss and to determine if the company will produce positive net income in the future periods.

Investors look to allocate their resources in both governments and businesses. The investors of government municipal bonds need to look at the financial statements in order to determine if the government is in danger of defaulting in the near future. Unlike investors in businesses, investors in government municipal bonds cannot recognize fluctuating returns. Looking at Detroit's government as an example, we see that the threat of governmental bankruptcy is a real problem and can lead to losses for investors in the municipal debt market (Stroll). A government's pension obligation is an important area of the financial reports that needs to be clearly and accurately stated so that investors will know the credibility of the governmental entity. Businesses are required to publish their pension liability while governments do not have the same standards because they do not use accrual accounting for government-wide financial statements. Typically investors have some kind of finance or accounting knowledge or at least they should if they want to properly allocate their money; however, government accountants still need to try to present the financial reports in a way that leaves no room for debate about the financial health of the municipality.

Investors in the commercial capital markets do not differ much from the investors in the municipal debt markets. It would not be unusual for someone to both invest in the commercial capital markets and the municipal debt market at the same time. Investors in the commercial markets do have the option of investing their money in commercial bonds or shares of a company. This is where the difference between the two investors shows. Investors in shares of a company do not recognize constant returns like investors in bonds do. This means that potential shareholders need to know if the company will grow in the future which would lead to the company's share price increasing.

Investors in commercial bonds are almost identical to investors of municipal bonds. However, investors in the commercial market have a safeguard; management often owns shares of stock in the company and the market drives the value of those shares. The market reflects all available and current information, which means that the market share price of a company reflects the market value of that company. If a management team begins a project that begins to look unprofitable they will scrap the project in order to minimize their losses. Unlike businesses, governments do not have stock that trades actively on a market, which means there is no market value for a municipal entity and government administrators do not have capital ties to the municipality. So if government officials decide to begin a project and the project turns out to cost more than budgeted, administrators will not always scrap the project in order to cut losses. This means that investors in the municipal debt market need to have access to government financial reports that clearly show project management (Moberg). With accrual accounting governments would provide full cost information that provides incite into project management.

Bankers have the same general concern with both governments and businesses: "will the entity be able to meet its debt requirements in the future?" (Taussig). Banks need to look at the financial statements in order to see current revenues versus expenditures as well as any future plans for the entity. Bankers have finance knowledge and sometimes bankers also have some accounting knowledge, so the most important part for the accountant is to make sure that all the significant information gets presented in the financial statements. This means that the financial reports should contain any and all future projects with expected costs and revenues. This would allow the bank to clearly see if any concern of default exists. This can best be achieved through the use of accrual accounting for government-wide financial statements.

When a private utility-water service company and a municipal utility-water service entity look to acquire a loan from a bank they both would need to prove the same information. For example, the bank will want to know that future revenues from the service will exceed the cost of developing and financing the project, so the entity can pay off the loans. Both government and commercial accountants need to provide the essential information in the financial reports that will allow bankers to accurately make decisions on which companies and governments have good credit and which ones are in trouble of default.

Union groups also might need to look at the financial statements in order to know if the governmental entity or business is in danger of bankruptcy. As seen in Detroit, municipalities can restructure their pension obligations under chapter 9 bankruptcies (Stroll). Union members need to know if the government that they work for can hold true to its promises of a pension upon retirement. Governments need to be accountable and union workers need assurance that the government is in good financial health, and if the government is not in good financial health then at least union members have a right to know what is coming to them instead of being blind sided once their government files for bankruptcy. Union members do not always have accounting knowledge or know how to read complicated financial statements, so the governmental accountants have a duty to produce financial reports that show the transactions and government finances in the most simplistic way possible. Now, it would be impossible to make every transaction look as simple as ‘2+2=4’, but accountants can still do their best to clearly and accurately show the financial position of the municipality. Using accrual accounting for government-wide financial statements would better show the future pension liability.

Social scientists and economists look at governmental financial reports in order to get insight to the costs and benefits of providing services to the public. This information could be useful if the national or state government wants to try to implement a program that currently only applies in local governments. These programs can involve health, welfare, education, or public transport. If a government works efficiently and the citizens express happiness living in the city then other governments will try to mimic the programs put in place. In order to provide similar programs with the same success level, social scientists and economists need to know how the municipality works. Social scientists and economists mostly have accounting, finance, economics, or any combination of the three, so they would not have a difficult time looking at the financial statements. However, if the governmental entity does not provide all the essential information in the financial reports or if they "hide" key financial information in other accounts then social scientists and economist will not be able to accurately establish how the entity functions or does not function so efficiently.

Social scientists and economists also look at the financial statements of businesses in order to determine how profitable companies work so well and what unprofitable companies are doing wrong. There would not be much difference in the needs of social scientists and economists between governmental entities and businesses. This is another example showing how governments and businesses have similar qualities and thus should be held to the same standard of accounting and reporting practices.

Now that we have looked at some of the different groups that use the financial statements we can see that the needs between the groups looking at the government financial reports and the groups looking at the business financial statements do not differ significantly. This strengthens the argument that governmental accounting and business accounting serve similar needs and thus should be able to provide similar evaluations of either the municipality or the for-profit business. Also, as we saw throughout this chapter, many users could need to look at both government financial reports and business financial statements, and having similar levels of quality would allow for the best decision making and allocation of resources.

Chapter 2: Budgeting

Now that we have discussed the different users of government and business financial statements, we will next look into budgeting in the governmental sphere as well as compare and contrast some aspects from budgeting in the business sphere. We will look into what a budget is, who makes the budget, and how users of the governmental financial statements use the published budget.

The government finance officers association (GFOA) stated in a 1998 paper, *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*, that:

> ...the budget process is not simply an exercise in balancing revenues and expenditures one year at a time, but is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals. A good budget process moves beyond the traditional concept of line item expenditure control, providing incentives and flexibility to managers that can lead to improved program efficiency and effectiveness (GFOA, 1998).

The purpose of governments is to better the lives of their citizens by providing services like public safety, education, social services, transportation, etc. ("Why Governmental Accounting and Financial Reporting is—And Should Be—Different"). As we stated earlier, governments do not operate in order to generate profits; they exist in order to provide the necessary services to their citizens that businesses could not provide or choose to not provide because they generate little or no profit.

The budget lays out how the municipality will go about pursuing its purpose of providing service to the citizens. The budget process consists of the creation, implementation, and evaluation of a plan to provide the necessary services and capital assets (GFOA, 1988). The budget works similarly for business entities; however, business exist in order to generate profits, so management will create a budget to layout which departments and services will receive more/less resources, which ones will be created, and which ones will be discontinued.

The government process for creating a budget should include a long-term prospective, establish linkages to broad organizational goals, focus decisions on results and outcomes, involve and promote effective communication with stakeholders, and provide incentives to government management and employees (GFOA, 1998). Businesses should typically try to follow the same structure, but they do not need to involve outside parties because budgets used for businesses are only used internally. Unlike governments, businesses do not need to and do not publish their budgets. This again represents how governments and businesses have different levels of accountability.

The budget lays out where the city plans to allocate funds during the upcoming year. The budget is the backbone of the operations within the government and allows for unity within the different departments. The better the unity within the government the more efficiently it can provide services to the citizens. The budget puts into ink how much each department "has at hand" to use during the fiscal year (GFOA, 1998). However, certain funds must be used in specific ways such as grants to fund the utility water department or to fund the transportation department. Furthermore, departments may receive funding that becomes available over time, which means that the department has to be efficient during the fiscal year so that they do not go over their budget. However, the budget is not a hard line, which means that the government can go outside the budget with proper authorization. This goes along with the principle of longevity. The principle of longevity states that because of the power to tax, the nature of and need for the services provided, and a lack of market competition, governments rarely liquidate ("Why Governmental Accounting and Financial Reporting is—And Should Be—Different"). In order for a government to amend a fiscal budget the city council must approve the amended budget in a similar process to the approving of the initial budget. If a government tends to go outside the bounds of its budget, its citizens will not generally be pleased. When governments operate under a deficit, they generally will need to cut services or raise the tax burden on the citizens in order to decrease or get rid of the deficit.

While creating the budget, administrators will decide which departments and services will receive which funds and how much they will receive. The mission of the budget process is to guide the ones in charge of making decisions in order for them to make the most informed choices about which services and departments to expand and which ones to decrease. We will now discuss each of the four principles and twelve elements that make up the budgeting process.

The first principle is to establish broad goals to guide the government in decision-making. In order for governments to operate efficiently and provide the best services to their citizens, they need to be looking into the future and what needs and problems will exist so that they can prepare now. There are three elements under this principle of the budgeting process. The first element is to assess the community needs, priorities, opportunities, and challenges. The fact that this element is the first one should not come as a surprise; governments' first priority needs to be their citizens. The second element under this principle states that governments need to identify opportunities and challenges for government services, capital assets, and management. In order for administrators to find opportunities and challenges they need to look at the entity in its present condition as well as in the future. The last principle is to develop and distribute the broad goals. Governments operate over many different departments that all have their own goals and challenges. In order to keep everyone moving in the same direction, the administrators need to let the department heads know of the long-term goals for the municipality. This allows for the government as a whole to be more efficient and accountable to its citizens (GFOA, 1998).

The second principle of the budgeting process states that a government needs to develop approaches to achieve the goals put in place. Governments will determine what services and capital assets they want to provide and then they will find ways to provide for those goals. This is different than the ways businesses operate. Business will first forecast the amount of sales and proceeds from those sales and then determine the costs of achieving that level of sales. Four elements exist under this principle of the budgeting process. The first element is to adopt financial policies. This element shows the control that citizens have over their government. The citizens vote on policy or the council that votes on the policy to be put into place regarding the finances of the municipality. The second element states that the government should develop programmatic, operating, and capital policies and plans. These allow the governmental departments to operate like one, which allows the government to stay accountable to the citizens. The third element is to develop programs and services that are consistent with policies and plans. The last element is to create management strategies to help reach the goals through the programs and services (GFOA, 1998).

Businesses do not necessarily have to worry about the policy put in place by shareholders or the consumers of their services or products. However, businesses still need to answer to legislatures when they are creating their budget. The restrictions on businesses do not equal the amount applied to governmental entities, which shows the importance of accountability to the regulatory boards governing municipalities.

The third principle of the budgeting process for governmental entities states that budget makers should develop a budget in line with approaches to achieve goals. The first element under this principle is to develop a process for preparing and adopting a budget. In order for a government budget to be applied, it must first be presented to the citizens and then adopted by the city council. This can create issues during the budgeting process as not all citizens or council members agree on what services should be provided and what level of resources should be applied to certain departments (GFOA, 1998).

For example, republicans generally would want to provide services in a way that would lower the tax burden on citizens or decrease the regulations on business whereas democrats might try to improve the education system or provide more resources for social services. These divides within the government can cause the municipality to work less efficiently or to be less accountable to the citizens as politicians collude in order to pass their agenda.

The second element under the third principle is to develop and evaluate financial options. During this process of making the budget administrators will determine what their options are for financing the desired services and capital assets that will help the municipality achieve its goals. Hopefully, the municipality will be able to pull resources from a capital surplus from prior years, but in most cases this does not happen. Next, the administrators need to determine the amount of fees they expect to collect from the service they provide and after that they will determine how much outside funding, through issuing bonds or acquiring grants, they will need. The third, and last, element under the third principle is to make choices necessary to adopt a budget. After comments have been made on the proposed budget, administrators will make the final decisions on the budget before implementing it (GFOA, 1998).

The fourth principle of the budgeting process takes place at the end of the year. The government administrators need to evaluate the performance of the different departments and make adjustments for the upcoming year. This step is important because if the municipality began to stray away from the determined goals then this will be the place to put it back on track. The first element under this principle is to monitor, measure, and evaluate performance. This allows for the public and the administrators to see how efficient the different departments were during the fiscal year. The administrators will determine if new department heads are required or if a system needs to be redesigned. The last element of the budget making process is to make adjustments as needed (GFOA, 1998).

The problems of a municipality are always changing. The ability of the administrators to recognize the changing challenges and address them in a timely manner shows the effectiveness of those members. The citizens put the council in their positions through elections and the council puts the administrators in their positions through appointment. The budget makers have a responsibility to answer to and for the citizens of their municipality. The publicized budget keeps the government accountable to its stakeholders who are its citizens or anyone with an interest in the municipality. GASB Concepts Statement 1 states that accountability is the cornerstone of all financial reporting in a representative democracy and that government must answer to its citizens to justify its raising of public resources and the purposes for which the resources are used. Also, GASB Statement 34 requires that governments present budgetary comparison schedules, including both the original and the revised budget, in the interest of accountability to those who are aware of, and perhaps made decisions based on, the original budget ("Why Governmental Accounting and Financial Reporting is—And Should Be—Different"). Citizens would have no incentive to participate in their government if they thought that their government officials would not maintain their fiduciary responsibilities.

Next, we will discuss who actually determines the budget and how the process works in governments compared to businesses. The administrators of the municipality are the heads of the different departments. For example, the city manager, finance director, public works director, city planner, and others will work together to determine how to best allocate the resources in order to achieve the goals put in place. This can lead to issues, as the different departments might be bias towards funding for their own departments or departments that they work with. Resources can be scarce for governmental entities. Grants are limited for city grant writers to acquire and grant writing can be competitive. Also, some grants and other contributions come with restrictions; for example the donor might require that the funds only be used for improving the city parks. This can cause trouble for the administrators as they try to allocate the resources in the most efficient and legal way while making sure that all the departments have enough in order to continue providing their services. The budget must fall within the municipality, the state, or the federal policy, which means that administrators need to balance the needs of the citizens, the vitality of their departments, the goals put in place, and the policy of their jurisdiction when preparing the fiscal budget.

Businesses have much more access to capital than governments and that allows business management to be more creative with their budget. If management determines that they will need extra funding for the upcoming year because they plan to expand a line of services then they can either issue debt, downsize another service line, go to investors (if the company is private), or they can have another listing on the stock exchange (if the company is public). Governments do not have the liberty of trading stakes of ownership on market exchanges, so they have to be more efficient with the funds that they acquire; not to say that businesses can have inefficient capital allocation and not worry about funding, but businesses can acquire resources more freely.

The city council must vote on and approve the budget, which is similar to how the board of a company must also approve the budget. However, the major difference is that the board of a company usually agrees unanimously on what is best for the company—what is going to make the company the most money with the least expense. Furthermore, as stated earlier, in order to amend a government budget, the council must vote on the new budget again. Business's management does not have this issue when amending the budget.

The city council members of a municipality hardly all agree on what is best for the citizens. As stated earlier, the council usually consists of members from different political parties, which leads to differences in thinking. Republicans tend to be more business-friendly in their policy and democrats tend to have more of a social-welfare mindset when thinking about the right policies to implement. These differences can cause either stalemates where none of the goals are implemented or where compromises must be made, which could cause either the city to move slower toward the end goal or citizens will not receive the services they deserve or need because the politicians may all have their own agendas that do not overlap in an area beneficial to the citizens.

Furthermore, all of the council members had a platform that they ran on during their campaign for office. The council members will want to make sure they can get as much of their policy pushed through so that the citizens will favor them when the next election comes. This can affect the budget, as council members might want the resources to go towards one department over another because it will favor their constituents. Not all council members will put their constituents over the populace, but politics has a way of "muddying the water".

The way budgets get handled by governments and by businesses causes another major difference between the two spheres. Businesses use their budgets for internal purposes only so investors and other outside parties do not get the opportunity to see if the company functions as intended by management. Governments do not have such liberty. Government financial statements, as stated above, by law must be published and made available to the public. This gives citizens and other outside parties interested in the government a chance to look into the finances of the municipality and determine how efficient the government entity works. Also, it allows the outside parties to see if the government administrators use the money legally and as they stated that they would.

Now that we have discussed what a budget is and how administrators develop a budget, we will discuss the different ways that users of the financial statements can use the published budget. Budgets can be extremely useful and informative for both internal and external parties of a municipality. Government administrators can judge the performance of departments and department managers. The city manager works much like the chief executive officer (CEO) of a company. The city manager wants to know that all of the different parts of the municipality are working in unison towards a single set of goals that will increase the overall well being of the citizens. If the city manager sees that a department manager's performance is not satisfactory or if their skills could be better utilized in another area then he will make the needed changes in order to improve the efficiency and success of the municipality. Administrators can also use the budget for guidance when trying to keep the municipality headed towards the goals put in place. If they notice that one department cannot fulfill the level of services desired due to a lack of funds or another department has extra resources available after they achieved the level of service desired then administrators would know how to better allocate the funds in next years budget.

Citizens can also benefit from looking over their municipality's fiscal budget. They can look at the efficiency of their government, which allows the citizens to hold the government officials accountable. Citizens should also look at where their government allocates resources. Having a good understanding of how your government uses its resources allows citizens to make more informed decisions, in terms of who will provide the best public service and ensure the well being of the populace, during the next election. Citizens can also compare their government budget with another city's government budget and compare services provided and efficiency. The more citizens that look at their government's budgets and participate politically, the more governments will have an incentive to be accountable to their citizens. Furthermore, potential citizens should also look at the budget of the city in order to determine which services the city provides and if the municipality promotes the same values as them.

Governments also need to answer to legislators and the budget allows the legislators to hold the government accountable for its fiscal policies. For example, if a government is using funds from a restricted grant early or if it is using a restricted donation for unintended purposes, the legislators could discover the fraudulent actions by looking through the fiscal budget. Another group that benefits greatly from the published budget is the bondholders of the municipality. Bondholders see if and how the government plans to provide the funds to payoff outstanding debt in future periods. This helps the bondholders assess the risk of the municipal bonds they hold.

As we have seen, multiple different groups can use the budget as a way to see if the municipality has the capital or resources to provide the current services and capital assets or if the government is simply putting the expense off onto future taxpayers. Published budgets keep the government in check and allow the parties with an interest in the municipality to make more informed decisions.

Chapter 3: Regulatory Boards

The world of governmental accounting constantly changes and creates new opportunities and challenges for those involved with the profession whether they are citizens, council members, bondholders, or any other person with an interest in government. In 1984 the financial accounting foundation (FAF) established the GASB in order to help with the issue of an ever-changing profession (Facts About GASB - 2013-2014).

The GASB establishes and improves the accounting principles that govern U.S. state and local governmental entities. However, the board has no enforcement power; the enforcement of governmental accounting standards is handled through state laws and the audit process. The board gets its funding from an accounting support fee created under the Dodd-Frank Act and the Consumer Protection Act, and the board also sells publications in order to raise funds. The FAF also established a board of thirty members called the Governmental Accounting Standards Advisory Council (GASAC) in order to add guidance and strength to the GASB when determining a new standard or revision (Facts About GASB - 2013-2014).

The FAF elects the board members of the GASB for terms lasting five years, and a board member can hold two terms totaling ten years in all. The board of the GASB consists of a chairman, serving full-time, and six board members each serving part-time. In order for the FAF to consider someone for the position of board member on the GASB the person must have a strong understanding of governmental accounting and finance. Furthermore, board members must have high integrity and a passion to protect the interests of the public (Facts About GASB - 2013-2014). The board members establish governmental accounting standards that will increase the usefulness of the financial statements for users and that will help guide preparers, auditors, and others. The current board members are David A. Vaudt (chairman), James E. Brown, William W. Fish, Michael H Granof, David E. Sundstrom, Jan I. Sylvis, and Marcia L. Taylor. These board members all have the utmost interest and concern with creating accounting standards to better the usefulness of governmental financial information (Facts About GASB - 2013-2014).

The GASB's goal is that the financial statements will help assess the governmental entity and its annual results, which would help show whether the government's net financial position increased or decreased during the year. Furthermore, GASB looks to establish standards that will better show whether the government's revenues were enough to cover its services or if the government needed to raise taxes or find funding another way. The board's number one objective is to make governments more accountable through more transparent financial numbers (Facts About GASB - 2013-2014). Government officials also rely on the GASB to establish standards that will help them more easily see the cost of providing services to their citizens; this is important because government officials need to determine the fees for services as well as if the municipality can support the current level of services or if it should provide more or less services to its citizens. For example, if a city notices that it has a surplus in its water fund then it could decide to lower the water rates and visa versa or the city administrators could move some unrestricted funds from the water fund to another fund that could use the resources.

Probably the most significant purpose of the standards that the GASB creates is that users of the financial statements can more easily compare different governments in order to determine effectiveness and other factors. This allows investors to decide in which muni-bonds to invest their funds or citizens can compare cities or school districts when deciding where to live or send their children for schooling. Similar to users of government financial statements; users of nonprofit and for-profit financial statements also need the guidance and support of regulatory board. The regulatory board governing nonprofit and for-profit businesses is called the Financial Accounting Standards Board (FASB).

The FAF established the FASB in 1973 in order to replace the accounting principles board. The FASB establishes and improves financial accounting standards that govern nonprofit and for-profit accounting procedures. The FAF appoints the board members of the FASB similar to the GASB. Unlike the GASB, the FASB has a full-time chairman and six other full-time board members. The board members are elected for a term of five years and can hold two terms. The board members come from a diverse background but all have a common interest: the guidance of users, auditors, and others (FASB, Financial Accounting Standards Board).

Both the FASB and the GASB report to the FAF. Currently the two boards exist to govern the accounting standards of three different groups including governmental entities, nonprofits, and for-profit businesses. Private nonprofit and for-profit businesses fall under the jurisdiction of the FASB while governmental entities and not-for-profits of governmental units fall under the jurisdiction of the GASB (Jones). The FASB and the GASB are very similar in their purpose and their structure, but the GASB has significantly less funding, which could represent the difference in interest between the governmental and for-profit spheres.

The GASB's purpose and vision is to create "greater accountability and well-informed decision making through excellence in public-sector financial reporting" (GASB, Financial Accounting Standards Board). The board's foundation rests on four core values. The first one, Independence, states that the board will try to create the best system for all constituents without outside influence or pressure. The second value, Integrity, means the board will be accountable to all of its constituents. The third value, Objectivity, states that the board will make non-bias decisions backed by credible research and thorough due process when developing or reforming an accounting standard. The last core value, Transparency, states that the board will develop a system of openness and public participation because the best way to be accountable to the constituents is to allow for their input (GASB, Financial Accounting Standards Board). The GASB creates standards that help users with decision-making and the standards allow and require the government officials to demonstrate accountability toward their constituents regarding the use of public resources (Facts About GASB - 2013-2014).

However, the board does not create or reform standards without first going through an extensive system of due process activities. The process for developing or reforming an accounting standard requires five steps. The first step calls for the appointing of an advisory task force of outside experts to look into the problems with the current standards and brainstorm potential solutions. Second, the task force will look at existing literature and conduct or commission further research of the accounting area. Next, the board will develop and publish a discussion paper for public comment. In the fourth phase of the process, the board will read over and take into consideration the public comments and then distribute an exposure draft of the potential standard for public comment. Lastly, after holding public hearings and forums for its due process documents, the board will issue the new or revised standard to the public (Facts About GASB - 2013-2014). The standards usually become effective at some future date in time.

The GASB will issue articles and other publications in order to achieve its goal of educating those within the accounting profession whether they are preparers, users, or auditors. Since the board's main purpose is to better the system of transferring financial information from preparers to users, it tries to educate the users as well as create better standards. The more transparent the financial figures and the more knowledge users have the more accountable governmental officials can be to their constituents.

The GASB celebrated its thirty-year anniversary this year. Many critics believed that when the Governmental Accounting Standards Board was established in 1984 that it would not be a permanent solution to government accounting standard setting. In 1984, the board replaced the National Council of Governmental Accounting, which was established in 1934 (Facts About GASB - 2013-2014). The GASB has accomplished much in the way of increasing the accountability within the governmental accounting profession. The board issued Statement No. 34, "Basic Financial Statements—and management's Discussion and Analysis—for State and Local Governments". The standard's purpose is to provide more understandable and useful financial records. For the first time in governmental accounting the use of accrual accounting would be required for business-like activities. However, the board did not require the use of accrual accounting for government-like activities. For government-like activities, prepares use a modified accrual accounting system, which is a combination of accrual and cash accounting (Governmental Accounting Standards Series).

The Governmental Accounting Standards Board has implemented many new standards and revisions since its establishment in 1984. One of the projects completed by the GASB is Standard No. 67, "Financial Reporting for Pension Plans", which was put into place in August of 2012 (GASB, Financial Accounting Standards Board). Accounting for pensions has been an important topic in both the for-profit and governmental accounting sectors. Many of the pensions established years ago have become unevenly balanced in current years with most pensions leaning on the underfunded side. The GASB continues to work on creating and revising governmental accounting standards in order to add more accountability to the profession. Some of the projects currently on the docket for the board are new standards regarding accounting projections, accounting for leases, and fiduciary responsibilities (GASB, Financial Accounting Standards Board). The existence of these current projects shows that the GASB continues to perform its duties to its constituents.

Before the GASB came into existence, the American Institute of Certified Public Accounts (AICPA) published a paper called the Trueblood report, which laid out twelve objectives of financial reporting (Jones). The eleventh objective relates mostly to the governmental sphere of accounting. The objective states:

> An objective of financial statements for governmental and not-for-profit organizations is to provide information useful for evaluating the effectiveness of the management of resources in achieving the

organization's goals. Performance measures should be quantified in terms of identified goals (Jones).

Before the FAF established the GASB, the broad position in 1977/8 was that each individual state had the power to set standards for themselves as well as for their own local governments. Some state and local government accounting standards had been nullified to the authority of the National Council on Governmental Accounting. Governmental accounting was an extremely confusing combination of law and practice throughout the fifty states with varying histories and traditions (Jones). This system was much like the myriad of different accounting systems seen around the world before the creation of the International Accounting Standards Board (IASB) and International Financial Reporting Standards (IFRS). IFRS is a single set of standards that has been adopted by many countries around the world and has created more accountability, transparency, and comparability in the accounting profession worldwide. The creation of the GASB had a similar effect with governments within the United States.

In 1987, the GASB issued Concept Statement No. 1 of its conceptual framework. This statement would lay the foundation for the board's future work with governmental accounting standards. The conceptual statement listed three main points. First, financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability. Second, financial reporting should assist users in evaluating the operating results of the governmental entity for the year. Lastly, financial reporting should assist users in assessing the level of services that the governmental entity can provide and its ability to meet its obligations as they become due (Jones).

The GASB works to better the system of measuring the "success" of governments through the creation of a solid conceptual framework as a base for creating accounting standards, the development of better accounting standards, and by providing access to educating materials for those involved with the governmental accounting profession.

However, governmental accounting is not flawless, and the GASB can do more to better the profession. The usefulness of information from governmental accounting financial statements could be improved though the use of accrual accounting for government-like activities. The use of accrual accounting for government-wide financial statements would increase the accountability of the government to its constituents by allowing for users to determine all assets and liabilities of a municipality not just current assets and liabilities. The government would become more efficient as it tried to maintain a suitable balance of assets and liabilities. The government would not want to accrue liabilities without addressing them or developing a plan to address them in the future. Furthermore, users would more easily be able to compare the different sections of the government financial reports because preparers would consistently use accrual accounting instead of accrual accounting for business-like activities and modified accrual accounting for government-like activities.

In the next chapter we will look into different countries that have implemented accrual accounting for their government-wide financial statements. We will discuss the success and shortcomings of the different cases as well as lessons that the GASB could learn from them. In order to make an efficient argument for the use of full-accrual accounting for government-wide financial statements for U.S. state and local governments, we will also look into the similarities and differences between the example countries and the United States and what challenges could arise because of the similarities and differences.

Chapter 4: Accrual Accounting for Government-wide Financial Statements

In June 1999, the GASB established Statement No. 34, which required the use of accrual accounting for government's business-like activities (Governmental Accounting Standards Series). Accrual accounting measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur (Accrual Accounting Definition). This method allows for better financial measurement of an entity. For example, when an entity purchases equipment or another type of asset, but does not use those assets in the current year, those assets will get recorded on the balance sheet because they will have an economic benefit to the entity in the future and ensuring that the funds get allocated appropriately.

Currently governments use a modified accrual accounting method for their government-like activities. Modified accrual accounting recognizes revenues when they become available and measurable and, with a few exceptions, recognizes expenditures when liabilities are incurred. A significant part of modified accrual accounting is that available funds are divided among the different segments of an entity. This helps to ensure that the resources are allocated and used appropriately. However, the adoption of accrual accounting for government-wide financial statements would not need to mean a departure from dividing the funds.

Accrual accounting contributes a wide range of accounting information more comprehensively than information provided by cash accounting. Financial statements and annual budgets prepared under an accrual method would include non-cash expenses such as depreciation. Many believe that accrual accounting information provides an accurate assessment of the full cost of service provision and is a better measure of program performance. Government officials can achieve greater control over the public assets, which will allow the government to provide services more efficiently to its constituents (Guthrie).

Multiple countries have implemented accrual accounting for government-wide financial statements, and many of those countries have had success and would promote the change to accrual accounting for governments (Newberry). Two of the first countries to take the lead on adopting accrual accounting for government-wide financial statements are New Zealand and Australia. Let's first look at New Zealand—the first country to establish accrual accounting for governments.

Before New Zealand transitioned to accrual accounting, they had a system of financial reporting so complicated that only a few high-level officials such as a Prime Minister could understand the government's accounts (Ball). Government officials developed their new accounting system not only to produce better accounts, but also to improve the performance of the government. The use of accrual accounting allows governments to manage their assets and services better, which creates better accountability towards their citizens. New Zealand's government published financial statements using accrual accounting every half year, and within the first two years of the new accounting system, the financial reports received clear audit opinions (Ball). The government believed, as many do, that transparency creates better decision-making by officials and others involved with government. The financial reforms in New Zealand began in 1989 and began to take effect in 1991, which is a quick transition period. New Zealand, now, has almost 25 years of accrual accounting experience for government entities. The application of accrual accounting strengthened New Zealand's executive branch of government and allowed for the avoidance of costly time spent developing special accounting standards (Newberry).

Australia followed soon after New Zealand implemented accrual accounting for government-wide financial statements. The introduction of accrual accounting required an upgrade of the accounting technologies as well as better trained and educated accountants that could understand the concept of accrual accounting (Guthrie). Under the use of accrual accounting, a preparer would record the cost of acquiring a building as an asset on the balance sheet and then allocate a portion of the cost of the building as an expense titled 'depreciation', which would increase the cost of the service provided through the use of that building. Some opponents to accrual accounting would say that the increased cost of services hurts citizens, but the citizens getting access to the current services should incur the full cost of service instead of some costs of services getting paid by future taxpayers.

According to some academics, accrual based budgeting will not fulfill requirements for basic accountability because government's main resource used for providing services is cash. However, governments operate using accounts payable for vendors used during projects and accounts receivable for customers of services (Guthrie). Many have voiced concerns over the measurement of assets; they say that government management cannot make decisions without knowing the total value of the assets. However, this issue would not exist within the United States because of the presence of the GASB and U.S. GAAP. Also, assets should get reported at the historical cost and management should determine if an asset is impaired based on the amount of future potential services provided to citizens. For example, if a section of a city's wastewater facility became obsolete or damaged, causing it to only last for 5 more years instead of the estimated 10 years then the manager or an outside expert would determine the loss in value from losing those 5 years of service.

Looking at the cases of New Zealand and Australia we can see both pros and cons to implementing an accrual accounting system for government-wide financial statements. First let's look at the pros. Accrual accounting will help managers practice better asset and liability management. For example, pension liability would be better represented on the financial statements under an accrual accounting system. Unfunded pension plans have become a major issue and concern within the United States and especially in California. The LA Times recently reported "the City of Los Angeles Fire and Police Pension System had enough funds in 2003 to cover its estimated future bill for workers' retirement checks. A decade later, it is short $3 billion" (Lifsher). Switching to an accrual accounting system would lead to better planning for future pension expenses by government officials.

Many people believe that governments operate inefficiently compared to the private sector. An example of increased efficiency after the implementation of accrual accounting was in New Zealand's telecommunications sector. The productivity of the government-owned telecommunications business increased by 85%, while the price decreased by 20% (Ball). This increased efficiency comes from a more comprehensive identification of costs from government services, which allows managers to have greater control over costs and pricing. Those supporting accrual accounting would say that it allows for a focus on resource flows according to the period in which they occurred, which also adds to a better grasp of the cost of services (Guthrie).

Some opponents to accrual accounting make arguments that we will address and show how to solve or avoid them. New Zealand found that the accrual accounting system gave the executive branch more power over the finances (Newberry). This problem would not happen in the United States because we have a strong separation of powers and checks and balances that keep any one branch from having absolute power over another. Many academics believe that accrual accounting creates a danger that misunderstandings of the financial information by politicians and managers will lead to poor policy and actions. As citizens of a municipality, people should take care in electing competent officials qualified for the job. Furthermore, some academics argue that accrual accounting will make it difficult for users to understand the financial statements (Newberry). However, the current financial statements are quite confusing and many CPAs have difficulty understanding the government financial statements compared to for-profit financial statements. In both New Zealand and Australia, many academics and professionals believe financial statements became more clear and understandable after the adoption of accrual accounting for government-wide financial statements.

Many opponents of accrual accounting for government-wide financial statements claim that accrual accounting creates more room for management manipulation of the financial information, but managers will have no more room for manipulation than they already do and accrual accounting will force the issue of long-term financial planning (Newberry). To prevent some elements of manipulation, government officials and managers should not get compensation incentives based off of revenues or the creation of a surplus or the decreasing of a deficit. Some other concerns are 1) consolidation issues for whole of government reporting, 2) the application of revaluation practices, 3) the reporting of financial instruments, and 4) reporting of contingent liabilities (Newberry).

To address the first concern, New Zealand found that it improved the efficiency of the government when the budgeting, appropriations, and financial reporting were all done on an accrual basis (Ball). Furthermore, in the United States, governments use accrual accounting for business-like activities, so the financial statements would be more consistent if accrual accounting is used for government-wide financials. The next three concerns can all be addressed with the fact that the United States accounting system has a much stronger foundation than that of New Zealand or Australia. Both the GASB and FASB have developed standards that address the concerns. The GASB could use the existing standards as a starting point when developing or revising standards. With that being said, academics have voiced concerns over business practices having too much influence on the creation of accounting standards for governments (Newberry). Again, in the United States two separate boards exist, which was not the situation in New Zealand or Australia.

Some final arguments against the change to accrual accounting are 1) the purpose of government does not include making a profit, so profit is not a significant measure of success, 2) financial structure is not relevant, 3) solvency is not relevant, and 4) capacity for adaptation is not relevant. First, it is true that governments exist to provide services not make profits, but governments want to provide services to their citizens at the lowest cost, which requires having a tight control over costs and knowing the “bottom line” of providing a service. Second, the financial structure does matter for governments; increasing numbers of governments participate in capital markets. Even though governments typically can borrow at below market corporate rates, governments can still get into financial distress if they do not structure the financials well. Third, solvency has become an issue for city governments in the past few years. With the bankruptcy of Detroit, Stockton, San Bernardino and Vallejo, cities need to start taking more responsibility and control over their financials because when a city files for bankruptcy its citizens and government employees lose services and, in some cases, their jobs (Lifsher). Lastly, a government can adapt its services and how it provides them to its citizens.

A successful government will be able to face a new challenge with a quick and pertinent solution. For example, the City of Fort Bragg, in northern California, used to read the water meters and bill for the utility water service every two months. Too many leaks were going unnoticed for long periods of time, costing the city and citizens valuable resources, so the city officials decided to change the billing cycle to monthly, which allowed for the maintenance workers to get updates on leaks more often and efficiently.

In order to get a better understanding of how the implementation of accrual accounting for government-wide financial statements in the United States would work we need to compare and contrast New Zealand to the United States. Although the change took place in New Zealand without much resistance, the possibility for a complete international change seems difficult to say the least. There are multiple reasons why the United States might have a different experience than New Zealand. First, New Zealand's total population equals 3.5 million compared to 319 million in the United States (Ball). In order for the change to accrual accounting to work in the United States, it would need to be a state-by-state change instead of trying to implement on a national level. The size of the United States does help in that we have more accountants in our army than New Zealand has army personnel, which means that there should not be an issue getting qualified accountants, who understand accrual accounting, to work in governmental accounting (Ball).

New Zealand's government also differs from that of the United States. The United Kingdom had a lot of influence on New Zealand's government. New Zealand currently has a Westminster-style parliamentary democracy. In their system, the Cabinet is made up of members of the political party that holds the confidence of Parliament (Ball). This allows their government to operate much faster because less friction exists between officials. In the United States, the change to accrual accounting would need to get introduced as a nonpartisan proposal otherwise the opposing political party would most likely dispute it. Also, New Zealand has no written constitution with the force of the United States Constitution and New Zealand has no state governments and no upper House (Ball). They can pass laws and reforms much faster because of less regulation.

Even with the differences between New Zealand and the United States, many lessons can be taken away from looking at New Zealand and other countries that have adopted accrual accounting for government-wide financial statements. New Zealand found that having a coherent framework of ideas guiding the system design helps a great deal (Ball). The United States' GASB has a concrete conceptual framework developed that would make the changing to accrual accounting much easier. By applying accrual accounting to government-wide financial statements and budgets, government officials and other users would be able to compare the entire set of financial statements easier as well as identify significant information more efficiently. To their surprise, government officials in New Zealand and Australia found that the change to accrual accounting led to improvements in the management of cash instead of having the opposite effect. Many academics and government officials from New Zealand would say, “one of the key lessons for the accounting profession is that accrual accounting can work in government” (Ball). Even in the early stages of the accounting change in New Zealand nobody voiced concern over the new system, and those involved with the new accounting system soon thought, “how could you do your business without this information?” (Ball).

Conclusion

The next step forward in governmental accounting in the United States is adopting accrual accounting for government-wide financial statements. The use of accrual accounting will allow the preparers of the financial statements to show not only the current financial position of the municipality but also the financial position of the municipality going forward. Furthermore, government officials will need to think long-term when developing government budgets and municipal goals, which will lead to more efficiency within governments and a better quality of life for citizens through more accountability.

Those interested in determining the success of their government will have an easier time by looking at the government over a longer period of time compared to a "snapshot" of the current period. Additionally, the users of the government financial statements will make better decisions when looking at accrual based financial statements compared to the current financial statements. Municipalities will have to show their true fiscal position including all long-term assets and liabilities. Long-term liabilities such as pension obligation can significantly affect the decisions of those with an interest in the government.

We have seen that the adoption of accrual accounting for government-wide financial statements is feasible and successful. The process will take time and effort to implement the new standards in all fifty states, but the benefits received will outweigh the cost of the process. In order to adopt the new standard everyone from citizens to legislators will need to work together and continue to strive for accountability from government officials. Everyone involved in government and governmental accounting needs to continue to educate themselves, which will lead to better accounting standards, better financial information, and better decision making. All of which will contribute to the continued progress and success of these United States.

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