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David R. Bean  
Director of Research and Technical Activities  
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401 Merritt 7  
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Re: Project 3-20 (Proposed Concepts Statement – Recognition of Financial Statement Elements)

January 12, 2021

Dear Director Bean:

One of the GASB members highlighted that because the governmental fund financial statements of the general fund exclude long-term obligations and related expenses, these statements “obfuscate the government’s true financial condition” and “conceal costs and obligations incurred in a current period.”

Some people have objected to the use of the word “obfuscate” suggesting it is a strong word indicating confusion and bewilderment. I think it is the **CORRECT** word.

It is confusing and bewildering to have a balance sheet of governmental funds that does not include the pension and OPEB liabilities even though those funds will be used to pay them. States report positive fund balances while collectively they have accumulated more than \$855 billion in unfunded pension liabilities and \$617 billion of retiree health care liabilities. Most of the 75 most populated cities also report positive fund balances while they have collectively accumulated more than \$179 billion in unfunded pension liabilities and \$160 billion of retiree health care liabilities.



It is confusing and bewildering that in 2019 in a press release Illinois Comptroller Suzanna Mendoza used the fiscal year 2018 governmental funds statements to say the state of Illinois' general fund deficit was reduced by \$6.8 billion, when \$6 billion of that improvement was loan proceeds and the state's government-wide statement of activities reported a \$6.2 billion decrease in its net position to a negative \$184 billion.

It is confusing and bewildering that in 2019 Chicago Public Schools (CPS) announced it had a \$342 million general fund surplus but shorted its pension plans by almost \$700 million. Based upon the CPS announcement the president of the teachers union stated, "The district was clearly saying, 'We have more money, there's more resources'" and "[O]ur expectations are that if there's resources, those need to find their way into the classrooms." As a result of the confusion that CPS had extra money--even though it doesn't have enough money to pay its pension plan's actuarially determined contribution and had a total unfunded pension liability of \$13.4 billion--the teachers' union negotiated a contract that increased CPS spending by \$1.5 billion over 5 years, including teacher raises.

It is confusing and bewildering that New York City finance officials tout that they balance their budget using GAAP, but government GAAP allows them to balance their budget by not funding their retiree health care benefits. The city has accrued more than \$100 billion of unfunded retiree health care liabilities.

It is confusing and bewildering that in early 2019 Texas officials touted a \$13 billion surplus in its general fund but it did not include \$75 billion of pension debt. Nevertheless, based on this "surplus," within weeks the state's final budget included increases in teacher salaries and property tax relief, leading to further deterioration of the state's overall financial position.

It is confusing and bewildering that governmental funds statements support government officials' claims of balanced budgets when millions, if not billions, of dollars of compensation costs related to pension and OPEB benefits are not included in both the budget and the governmental funds statements.

It is confusing and bewildering that earned compensation in the form of salaries is included in the general fund statements, but earned compensation in the form of unfunded pension benefits is not included. In both cases, government workers are providing services for current taxpayers. By not including unfunded pension costs in the general fund statements, the information needed to determine accountability, including whether current compensation costs were passed onto future taxpayers, is not available.

It is confusing and bewildering that governments are required to maintain two sets of books, the governmental funds statements that use modified accrual accounting and the government-wide financial statements that use accrual accounting.



It is confusing and bewildering that governmental funds statements and the government-wide statements report two totally different financial positions and the governmental funds statements can report surpluses while the government-wide financial statements report massive decreases in net position. Of course the elected officials use the numbers that make them look the best.

It is confusing and bewildering that citizens cannot find a statement in their government's audited financial report that indicates whether their government's general fund budget was balanced or whether costs were pushed onto future taxpayers, because no long term financial resources full accrual statements exist for the government's general fund.

It is confusing and bewildering to think that GASB members would believe it is an improvement to replace the "current financial resources measurement focus and modified accrual basis of accounting" with the "short-term financial resources measurement focus and accrual basis of accounting."

It is confusing and bewildering for GASB to suggest that the balance of a loan issued in one year and scheduled to be paid during the next year would be reported as a liability on the general fund balance sheet, but the balance of a loan issued two years or more ago and schedule to be paid during the next year would not be reported as a liability.

It is confusing and bewildering that GASB would go against the standard definitions of the Financial Accounting Standards and the International Public Sector Accounting Standards and attempt to fashion a convoluted definition of accrual accounting that would mean the "elements of financial statements arising from short-term transactions and other events are recognized as they occur, and elements of financial statements arising from long-term transactions and other events are recognized when payments are due."

I implore GASB to stop this confusion and bewilderment. Our representative form of government is being harmed. The Association of Government Accountants has stated "AGA believes that it is difficult to overstate how efficient reporting of government financial information contributes to a healthy democracy. Without accurate fiscal information, delivered regularly, in an easily understandable format, citizens lack the knowledge they need to interact with—and cast informed votes for—their leaders. In this regard, a lack of government accountability and transparency undermines democracy and gives rise to cynicism and mistrust."

The current and proposed concept statement and standards do not and will not produce "accurate fiscal information" "in an easily understandable format." Citizens have and will continue to cast votes lacking the knowledge needed to make informed choices. Taxpayers



have not and will not be able to hold their government officials accountable because GAAP does and would not reveal the accounting gimmicks used to prepare the budget that allow elected officials to spend money beyond the amount taxpayers are willing to pay.

**The lack of reliable budgeting and financial information is undermining our representative form of government and has created cynicism and mistrust.**

**I therefore strongly urge GASB members to reject this proposed concept statement and instead improve the foundations of our governments by bringing honesty and transparency to government financial reporting, including governmental funds statements.**

Now that GASB requires state and local governments to include their pension and retiree health care liabilities on their governments' consolidated, government-wide, statements present a clearer financial position. But elected officials budget at the fund level, not on a consolidated basis. This is why reliable and comparable accounting for the general and other governmental funds is critical.

A governmental funds balance sheet should only exist if it is prepared using the financial resources model and full accrual accounting. This would include financial assets and long-term liabilities including unfunded pension and retiree health care liabilities. Capital assets and liabilities would be excluded. A financial statement titled "Short-Term Financial Resources Balance Sheet" should not exist because this is a misnomer. A balance sheet reports an entity's financial position including at one point in time. To have a governmental funds "Short-Term Financial Resources Balance Sheet" and then a government-wide Statement of Net Position would just continue confusion. The governmental Comprehensive Annual Financial Report would have balance sheets that report two different financial conditions based upon two different time periods. This is contrary to financial reports of any other entity in the world.

The board could require a "Short-Term Financial Resources Statement" as described in Project 3-25 without including the words "balance sheet". A governmental fund resource flows statement which the board wants to titled "Statement of Short-Term Financial Resource Flows" could provide governments with information about the resources available to pay in the "short-term". This would help governments manage its resources.

But to provide users of the financial report with information **needed** to determine government accountability, including inter-period equity, a governmental funds statement of activities must be presented and prepared using the financial resources and full accrual



accounting basis. This would provide the citizens and taxpayers, the most important users of governmental financial reports, with the most important information. Did their government “balance” the budget by living up to the intention of balanced budget requirements? Were current costs paid by current taxpayers or were the costs passed onto future taxpayers?

I hereby request to testify in-person in Chicago or virtually.

Sincerely,

A handwritten signature in cursive script that reads 'Sheila A. Weinberg'.

Sheila A. Weinberg  
Truth in Accounting