

From: David M Walker

To: GASB Director <[director@gasb.org](mailto:director@gasb.org)>

Subject: Comment Letter Projects 3-20 and 3-25

February 22, 2021

Mr. David Bean  
Director of Technical and Technical Activities  
Norwalk, CT

Dear Dave,

As a CPA and former Comptroller General of the United States, I understand the importance of transparency and accountability in government. In my view, the current accounting and reporting model for state and local governments does not provide a full and fair view of the current financial condition and longer-term fiscal outlook of the applicable entities. Therefore, I believe it is fully appropriate for the GASB to undertake a comprehensive review of the current financial reporting model. While I have a lot of thoughts on this subject, I will limit my comments to five major issues for consideration by the GASB.

First, GASB Concepts Statement No. 4 should not be amended to add a second definition of accrual accounting. The definition of accrual accounting in paragraph 4 of the exposure draft is the proper definition: "Under an accrual basis of accounting, items are recognized when the underlying transaction or other event occurs." To add a second definition of accrual accounting would cause confusion and potentially undermine the credibility of accounting in governments, corporations and around the world. Furthermore, adding a timeframe to the definition goes against longstanding tenets of accrual accounting.

Second, most state and local governments budget on a cash basis and many are subject to annual "balanced budget" requirements. Accounting for annual revenues/resources and expenditures on a cash basis can result in false and misleading claims regarding whether annual budgets are truly "balanced." This issue can and should be addressed using a framework similar to that outlined in the Alternative View. Under this framework the governmental funds statements could provide information useful for cash management, for determining budget compliance and evaluating generational equity. At a minimum, the GASB should ensure that annual financial statements include a summary disclosure regarding the sources of funds associated with the "balanced budget" concept, including to what extent funds from any unrestricted "rainy day fund" or new borrowing were used to achieve a "balance" in annual cash flows.

Third, the single largest financial challenge facing many state and local governments is unfunded pension and retiree health care obligations. In my view, current and proposed financial reporting does not adequately highlight the seriousness of the "ticking time bomb" associated with these obligations.

Given the above, creating a Statement of Fund Balance and Net Position with a column for each governmental fund would help to improve transparency and accountability. GASB's decision to reflect the impact of full unfunded retirement obligations (i.e., pension and retiree health care) in the Statement of Net Position and The Statement of Changes In Net Position is a big step forward. However,

this step needs to be extended to reporting in connection with applicable fund balances. This could be accomplished via the column approach suggested by the Alternative View or a double “bottom line” approach: specifically, a subtotal on the total assets and liabilities figures for a “Fund Balance” number supplemented with any additional applicable unfunded retirement obligations (i.e., pension and retiree health care) and a “Total Net Position” number. Appropriate footnote disclosures would be included to explain and disclose the basis for calculating these figures, including key assumptions and sensitivity disclosures, and the source of funds to meet any related obligations.

Fourth, fiscal sustainability is a major issue for many states and municipalities. Federal financial reporting now includes a Statement of Long-Term Fiscal Position. This statement is designed to help the users of financial statements understand the potential longer-term implications of the current financial path. In my view, a related statement is also needed at the state and local level. Obviously, such a statement would not be required for small local government entities.

Finally, more needs to be done to highlight the nature and potential value of real property and other assets owned by state and local governments. While such assets are recorded at cost less any accumulated depreciation at present, more disclosure is needed regarding the nature and estimated fair market value of selected assets in the footnotes. The estimated fair market value would only apply to material asset categories that the applicable government entity has the legal ability to sell.

Thank you for your work in this important area. I would be pleased to answer any questions that you may have. In addition, I would like to testify virtually at one of your public hearings if we can arrange a mutually convenient date and time for me to do so.

David M. Walker  
Former U.S. Comptroller General  
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