



David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean,

Thank you for the opportunity to comment on Project Nos. 3-20 and 3-25, *Recognition of Elements of Financial Statements* and *Financial Reporting Model Improvements*. We urge GASB members to reject the proposed changes.

Taxpayer advocates and elected officials use government financial statements to track the workings of government and determine whether it is being run responsibly. Part of that determination is whether the government is covering costs through regular revenue. This means all costs, particularly pensions and benefits accrual, not just current cash outlays.

The proposed changes disfavor policy-oriented users of government accounting information in favor of liquidity-oriented users like internal planners and lenders. Worse, they cause financial statements to misrepresent a government's financial position by ignoring non-cash costs. The changes even elide the difference between regular revenue and borrowing proceeds, allowing a government that has borrowed to fund operations to claim it is in fiscal balance. The changes will thus compound and worsen the state of U.S. public finance, whereby forty-nine states have statutory or constitutional balanced budget rules and yet their debt increases every year. The states also collectively have about \$900 billion in unfunded pension liabilities and \$620 billion of retiree health care liabilities.

We are puzzled by GASB's deliberate departure from the principles of accrual accounting, particularly by the measurement principle that "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* (emphasis added)." We fail to see why the private business principle of recording revenue *when earned* and debt and expenses *when incurred* is not a superior principle.

We do recognize that proposed accounting changes apply to the financial statements of individual funds (general fund, gas tax fund, etc.) and that long-term obligations are summarized in the government-wide financial statements. This raises the question, though, why governments produce two sets of statements: government-wide and fund-level, using different rules and with no reconciliation.

Moreover, a government's balanced budget requirement and debt limit often apply only to its general fund, and most public scrutiny is focused there. Thus, while the government may produce a government-wide financial statement, the general fund financial statement governs policy decisions. It is thus vital that GASB craft the rules so that every individual fund financial statement gives an accurate economic picture of resources, costs and liabilities. Otherwise,

reported fund balances are useless as guides to policy: policymakers can claim balance or even surplus where there is in fact a deficit. This sad situation has severe political consequences that far outweigh the need for government planners or lenders to have a financial statement focused on short term cash use. Those sophisticated parties can do their own reconciliation, or the government can publish a separate statement to meet their needs.

Thank you again for the opportunity to comment on these proposals.

Sincerely,

A handwritten signature in black ink that reads "Andrew Abramczyk". The signature is written in a cursive, slightly slanted style.

Andrew Abramczyk

Senior Fellow