

A Look Forward from the GASB Chairman

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With the formal recognition of the 25th anniversary of the Governmental Accounting Standards Board (GASB) now behind us, and my second and final five-year term as chairman under way, this seems an opportune time not only to talk about some of the issues that are at the forefront of GASB's current technical agenda, but also to look to the foreseeable future at some of the accounting and financial reporting challenges and opportunities that I anticipate are likely to receive significant attention during the next five years.

Postemployment Benefits Accounting and Financial Reporting

GASB's standards relating to pensions and other postemployment benefits (OPEB), which cover, among other things, retiree health care benefits, have always drawn a great deal of attention and interest because of their significance and the amounts of money at stake. Most governments provide their employees with pensions and other postemployment benefits as a part of their total compensation package to attract and retain their services. Before GASB developed its pension standards and the conceptually similar OPEB standards, many governments were in the position of promising OPEB benefits without really having an accurate picture of what level of future resources they were committing themselves and the taxpayers to provide or a complete picture of their pension obligations. Similarly, users of financial statements did not have access to accurate information about the size of a government's future obligations or its related annual total costs of services provided.

As a practical matter, even if governments previously wanted to report this information, few would have had any idea of how to conceptualize and consistently measure these obligations—let alone report them in their annual financial statements. Though not everyone agreed with the answers GASB arrived at, the standards the board established for accounting and financial reporting for pension benefits and OPEB have provided a significant leap forward in terms of both accountability on the part of the governments and in providing financial statement users with decision-useful information to make assessments about the benefits that are being provided. At the same time, there are those who have found ways to avoid the spirit of the requirements and to abuse their flexibility.

GASB is currently in the process of reviewing its pension standards to gather information about just how effective they have been and to see if changes are needed to

improve the consistency and comparability of reported information between governments and across financial statements. Based on GASB staff research, I believe there is a real opportunity for improvement.

As part of the project on postemployment benefits accounting and financial reporting, the reexamination of our pension benefits standards involves looking at some very fundamental issues including what pension benefit obligations represent and how they should be reported within the government environment. Our reexamination may also have an impact on the conceptually similar OPEB standards.

The comment period for our Invitation to Comment, *Pension Accounting and Financial Reporting*, has recently concluded and the staff is now compiling and analyzing the constituent feedback for the board's review and further deliberations. One of the key considerations for the board as we enter the deliberative phase of the reexamination involves determining whether sufficient information is being reported to assess the degree to which interperiod equity is being achieved. In other words, to what extent is a government either shifting the cost burden for current period services to taxpayers in the future, or drawing down net resources accumulated in prior periods to pay for current period services provided?

Concepts Statement No. 4, *Elements of Financial Statements*, describes inter-period equity as "the state in which current period inflows of resources equal current period cost of services." It is not difficult to understand why GASB considers this a relevant metric to assess accountability. The current postemployment benefits project is GASB's first major undertaking since the issuance of Concepts Statement No. 4 in 2007, where some of its key concepts come into play, including the nature of liabilities and assigning costs to appropriate periods for financial reporting purposes.

Economic Condition Reporting, Including Fiscal Sustainability Issues

I have already addressed the importance of interperiod equity, which in my view is more than simply the basis used to assign costs to appropriate periods. In essence, it requires looking beyond current financial position and historical operating results to project the results of current fiscal policy—affecting both revenues and spending—over future periods. It also is expected to provide valuable information that can assist government policymakers when they make fundamental decisions about long-term spending priorities, including what services to provide and at what level, as well as what not to provide. These considerations ultimately go to the core of a government's economic condition and help determine whether its current fiscal path is sustainable.

The overall objectives of GASB's economic condition reporting research project are to identify the essential information that users require to assess a government's economic condition, to compare these needs with the information financial report users now receive, and to determine whether additional financial reporting guidance should be considered for any unmet essential information needs. Ultimately, I expect that GASB will consider the notion of interperiod equity, as well as the longer-term intergenerational equity issue, as a critical part of this assessment.

Earlier this year, the U.S. Department of the Treasury published a *Citizen's Guide to the 2008 Financial Report of the United States Government*. That report concluded that our nation's current fiscal policy path is not sustainable. Without getting into the details, current fiscal policies are projected to produce a relatively flat level of revenues as a percentage of GDP over the next several decades, but the corresponding debt service and entitlement program costs are projected to grow by multiples over that same time horizon. During the course of the next generation, according to the projections, the federal government not only will lose all capacity for any discretionary spending, but the ability to pay for entitlement programs would be severely challenged due to huge projected increases in debt service payments.

The federal government has, until now, taken a relatively easy way out by issuing additional debt to meet cash

flow needs rather than attempting to achieve inter-period equity. We are quickly reaching the point at which this becomes less possible because investors will, at some point, no longer purchase increased amounts of U.S. government debt. While the possibility of a U.S. debt default seems remote at best, it no longer seems impossible. In a related event, both Japan and the United Kingdom have recently lost their AAA bond ratings—for the U.S. to do so would result in seismic events in the world capital markets.

State and local governments have a harder time deferring obligations for future generations to contend with because they are, in most cases, required to balance their budgets. In reality, the truth is more complex because even with a balanced budget on a cash basis or modified accrual basis, it is still possible to shift costs to future periods. Also, in our federalist system of government, the financial interdependency among the federal, state and local government levels creates significant risk exposures for lower levels of government that depend on revenue collection at a higher level of government to fund service delivery costs.

In all likelihood, federal, state and local governments' postemployment benefit policies will have to change going forward because they are, in some cases, unrealistically generous, and the spending levels they require are simply not financially sustainable in their current form. That is a decision, however, to be made by policymakers who are better informed with essential financial information.

Communication of Key Financial Indicators

One of the most important aspects of GASB's mission involves establishing high-quality standards that result in making essential information about state and local governments' finances available, so that users of financial reports can make better informed decisions and government officials can provide public accountability for their stewardship of public resources. In the future, financial report users should have access to information that will allow them to determine whether the government provides taxpayers with a good return for their tax dollars in terms of the goods and services delivered, and assess the effectiveness and efficiency of government operations. Below are a few areas that I believe require further research and consideration.

Electronic Financial Reporting

In the early 1940s, the chairman of the IBM Corporation mused that one day, computers might weigh as little as 1.5 million pounds. I am willing to cut him some slack considering that they could weigh several million pounds at the time, but what his statement illustrates is that technology is evolving more quickly and in ways that even the savviest among us cannot always anticipate. In an effort to keep abreast of the evolving government environment and technology advances, GASB staff is engaged in monitoring the effect of the electronic media on the delivery of financial reporting information and how user needs are impacted as a result. Researching the evolving state of the art in electronic financial reporting by state and local governments should provide the board with a basis for evaluating the need to develop standards for financial reports intended for this communication medium. The current economic downturn may extend the timetable on both the evolution of this area and our efforts to monitor, assess and explore its potential, but just as there were relatively few computers 25 years ago that were not mainframes, the possibilities for disseminating high-quality, decision-useful information to financial report users via electronic means are only now beginning to be understood. I believe it is likely that in another 25 years, very few financial reports will be available in the traditional hard-copy format. I fully expect that the types of reporting highlighted below will be communicated through electronic means sooner, rather than later.

Popular Reporting

While there is much reason to be pleased with the level of information today's annual financial reports convey—particularly when compared with the reports of a decade or two ago—one area of improvement involves communication of selected key information to a broader base of citizens and taxpayers. Current comprehensive financial reports are simply too lengthy and too complex for most potential users. I envision a brief, summary-level report of key financial and other performance indicators presented in a nontechnical, less complex and more user-friendly format. All report users and taxpayers, who have the interest and desire, should be able access a summary report of highly relevant, decision-useful information about a government's finances and accomplishments in an easily digestible format. The four-page, AGA-designed Citizen Centric Report is one example of such a potential report. Taking advantage of existing technology, such summary-level reports can be designed to allow users, who want to delve more deeply into underlying specifics, to drill down to a more granular level of detail. This area of summarized, easier-to-understand key financial and performance indicators, and timelier electronic financial reporting is ripe for significant additional development over the coming years.

Service Efforts and Accomplishments Reporting

A key objective of financial reporting is to provide information about an entity's actual performance. Since a government entity's primary mission is usually to provide services for the common good, rather than to generate profits, governments should augment their reported financial performance information with key service performance metrics related to their specific major goals or objectives. GASB has spent a good deal of time and effort researching, talking, writing and answering questions about Service Efforts and Accomplishments (SEA) Reporting. At the heart of the matter is the simple recognition that traditional financial statements are not designed to communicate what kind of job a government has done in achieving its goals and objectives while using the resources it has been entrusted with by its citizens and taxpayers.

The objective of GASB's current efforts in regard to SEA reporting is to make just this sort of actual performance information available, so assessments can be made about a government's level of accomplishments, including its effectiveness and efficiency of service delivery.

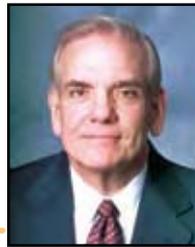
Final Thoughts

What we do at GASB helps to ensure that users of financial reports, prepared in conformity with generally accepted accounting principles, have access to high-quality, decision-useful information from state and local governments. When users are confident that the information they receive is rel-

evant, reliable, understandable, consistent and comparable, this creates trust. Transparency and public accountability further engender trust in a representative democracy. Working together, these factors lead to greater citizen satisfaction and better access to capital at a lower cost.

On a personal note, it has been highly rewarding to be a part of GASB team for the past five years, and I consider it a privilege to have the opportunity to lead the terrific team of talented and dedicated professionals at GASB for another five years.

Without question, the next five years will be a challenging period working on issues that will have far-reaching impact in the government environment. The board, staff and I continue to welcome your input and comments as we go about that work to establish and improve standards for state and local governmental accounting and financial reporting. In the end, the independence and objectivity that GASB enjoys, as part of the not-for-profit Financial Accounting Foundation, allows us to make the best interests of all our constituents and the public the primary drivers for everything we do. ▮



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