Chapter 6
CURRENT DEVELOPMENTS AND MAJOR ISSUES

INTRODUCTION

The Governmental Accounting Standards Board (GASB) has been in existence for over twenty-four years, and the Federal Accounting Standards Advisory Board (FASAB) for seventeen years. Due to appointment term limits, both boards have third-generation members. Thanks to stable staffs and the public availability of documents about the boards' deliberations and due process, their institutional memory is preserved in the interst of continuity. However, one would expect new members to bring fresh ideas to address current and persistent issues facing government accounting and financial reporting. Therefore, this chapter describes the current developments (up to the end of 2006), and analyzes major persistent issues.

ORGANIZATIONAL RENEWALS

As time goes on, FASAB and GASB experience crises that have resulted in change and renewal. As the organizational theory in Chapter 2 predicted, these crises would arise from their stakeholders' reluctance to continue to provide their contributions or from their demands as conditions to remain in the organizational coaliation. In order to survive, both the FASAB and the GASB recently engaged in thinking about their current situations and future prospects.

FASAB

The reader will recall that the FASAB declared four objectives of Federal accounting and financial reporting: budgetary integrity, operating performance, stewardship, systems and control. These remain the objectives for the Federal Government in general, and its central finance offices, namely the OMB, Treasury and GAO, as well as department chief financial officers.

Recently the FASAB considered its own unique role in contributing to the accomplishment of the above objectives and attempted to find its comparative advantages relative to other parts of Federal financial management. These organizations' activities both compete and complement with the FASAB's. The first group is the budget side of the Office of Management and Budgets and the budget offices in the departments. Budget officials prepare and defend budget proposals and monitor the execution of appropriations. The FASAB is prohibited from intruding the field of budget concepts and rules, even although budgeting and accounting are often inextricably intertwined. The second group is the auditors, both the departmental inspector generals as well as the GAO, which are responsible for legal compliance and internal control.

In view of the powerful presence of these two groups, the FASAB concluded that its near-term primary focus should be operating performance and stewardship. In these two areas, the FASAB would play a direct role, while providing support in achieving budgetary integrity, and maintaining systems and control. The FASAB explained its rationale in a document entitled "FASAB's Strategic Directions: Clarifying FASAB's Near-term Role in Achieving the Objectives of Federal Financial Reporting" issued in November 2006. The board hoped that this selection of objectives would help it set priorities and rank projects to make the most effective use of its resources.

GASB

Under the leadership of its third chairman, the GASB recently adopted a strategic plan (see Exhibit 6.1). The primary objective of the strategic plan was to re-invigorate the support of its stakeholders. The GASB needs not only symbolic support, but also substantial financial resources. On a full-cost basis, the GASB operated at a deficit of slightly less $2 million. As it shares some common costs with the FASB, the GASB achieved breaks even with revenues of slightly over $4 million to cover its operating expenses. These expenses include competitive salaries for its full-time professional staff. The GASB's full-time chairman and part-time members hold salaried positions, while non-resident board members are reimbursed for their travel expenses. Among the large group of GASAC members and task force members, most do not request reimbursements for their travel expenses, as the costs of their participation are borne by their employers. In effect the GASB receives substantial in-kind contributions.

Whereas the FASAB is virtually guaranteed financial support from its sponsors, the GASB has to earn its revenues on a piecemeal basis. Approximately half of its revenue comes from selling publications. Contributions cover about forty percent of the total expenses. State governments contribute the largest share (17%), with the rest coming from support fees, the government securities industries and professional associations.

In part due to this revenue structure, the GASB faces constant necessity of proving it is worthy of the support of its stakeholders, as its strategic plan tried to make the case (see Exhibit 6.1). The GASB walks a thin line between independence and responsiveness to constituents' needs and concern. In addition, the GASB continuous to defend the distinctiveness of government accounting as the conceptual rationale for its independent existence, in order to avoid being merged or acquired by FASB. Probably that was the reason for the GASB White Paper entitled: "Why Governmental Accounting and Financial Reporting Is – and Should Be – Different."

Exhibit 6.1
GASB Strategic Plan

Vision	Greater accountability and well-informed decision making through excellence in public sector financial reporting.
Mission	To establish and improve standards of state and local governmental accounting and financial reporting that will: • result in useful information for users of financial reports, and • guide and educate the public, including issuers, auditors and users of those financial reports.
Goals	Standard setting

Core Values	Constituent relations and communications Education Organizational effectiveness Independence Integrity Objectivity Transparency

Revival of Conceptual Frameworks.

Both the GASB and FASAB have resumed working on their respective conceptual frameworks (see Exhibit 6.2), and even made reference to each other's project in recognition of substantial overlap after allowing for their unique environments, operations and financing.

The FASAB's conceptual framework project had a comprehensive in scope and was conducted on an accelerated basis. The GASB saw no need to re-examine financial reporting objectives or the financial reporting model since the implementation of *Statement No. 34* was just underway in state and local governments around the country. Proceeding at a slow speed, the GASB issued an exposure draft on the elements of financial statements in August 2006, and would not begin deliberating on recognition and measurement attributes until one year later.

Exhibit 6.2
Conceptual Framework Projects at the FASAB and GASB

FASAB	GASB
Potential Statements of Concepts	
Conceptual Framework Acceleration Plan: Phases 1. Objectives 2. Elements and recognition 3. The financial report: management discussion and analysis, financial statements, notes, required supplementary information, other accounting information 4. Measurement 5. Entity issues	▪ Elements of financial statements ▪ Recognition and measurement attributes

Current Agenda Items

Exhibits 6.3 lists the projects currently on the agenda of the FASAB and the GASB as the end of 2006, along with a brief description.

Exhibit 6.3
Active Agenda Items as of Late 2006

FASAB	GASB
▪ Application of the liability definition ▪ Social Insurance ▪ Natural resources ▪ Heritage assets/stewardship land ▪ Stewardship investments ▪ Inter-entity costs ▪ Reporting changes in assumptions and other issues	▪ Intangible assets ▪ Pension disclosures ▪ Pollution remediation obligations ▪ Derivatives ▪ Fund balance reporting ▪ Economic condition reporting

FASAB Projects

The FASAB's current agenda is dominated by core conceptual issues regarding the recognition and measurement of assets and liabilities.

Application of the Liability Definition: The Federal Government has many programs, activities, events and transactions that could result in commitments that would give rise to resource outflows in the future. The objective of this project is to identify the origins of Federal commitments and propose criteria for recognizing certain commitments as liabilities for reporting on the government-wide balance sheet.

Social Insurance. Social insurance in the United States includes cash payments to the aged and disabled, as well as health care for the elderly. Currently, the "due and payable" amounts are recognized as liability for these programs. FASAB *Standards No. 25* (amended by *Standard No. 26* and *No. 28*) requires the preparation of a Statement of Social Insurance, effective for the Fiscal Year 2006. Therefore the primary accounting issue was whether — and how far — to extend the liability beyond the due and payable amounts on the government-wide financial statements. The Federal Government officials on the FASAB believe an expense is incurred and a liability arises when a participant has met all the eligibility requirements and the benefit amount is "due and payable." On the other hand, the public members favored the recognition of liability when a program participant has met the requirement of 40 quarters of work in employment covered by the program. In view of the split of opinions of members, the board replaced the exposure draft with a document that shows both viewpoints to allow for a full expression of opinions on this controversial issue.

Natural Resources. Toward the end of 2006, the FASAB was finalizing an exposure draft of a standard entitled "Accounting for Federal Oil and Gas Resources." The objective of the standard was to determine the conditions under which a dollar value and a quantity should reported in financial statements for oil and gas resources owned by the Federal Government, or under the stewardship of the Federal Governmenht. A related issue is how the revenue generated by these resources and the related costs should be recognized, and as well as the supplemental information to be disclose.

Reporting of Stewardship Assets, Land and Investments. FASAB *Standard No. 8* requires reporting of stewardship assets, stewardship land and stewardship investments as required supplementary stewardship information (RSSI) to ensure fair presentation of financial statements. Subsequently, such information is often considered to be of only secondary importance. Therefore the FASAB has been reexamining and reclassifying the contents in the RSSI for potential transfer to the notes to financial statements, leading to eventual disappearance of the RSSI disclosure category.

Other FASAB Projects. FASAB is also working on the reporting of changes in assumptions used in the calculations for pension and other benefits. The reader can access www.fasab.gov for continuous updates on the FASAB's active projects,

GASB Projects

By the end of 2006, the GASB was conducting several projects as a result of inquiries from governments in their attempts to implement *GASB Standards No. 34*:

Governmental Fund Type and Fund Balance. The GASB staff sought comments on two issues related to fund accounting. The first one was whether to clarify or even replace the fund balance classification of unreserved, reserved and designated be retained. The second issue was the classification of "governmental funds" in light of the diverse ways of interpreting the governmental fund types.

Intangible Assets: GASB *Standards No. 34* requires governments to report all their capital assets used in operations, including intangible assets. The GASB would soon issue its first comprehensive standard on all types of intangible assets.

*P**ension Disclosures.*** This project was expected to lead to a standard requiring additional note disclosure about pension plans.

Pollution Remediation Obligations: The GASB has issued an ED that required a government to report its pollution liability in terms expected future cash flows needed to clean up pollution. The document further specfied five events that would trigger the reporting of a government's pollution remediation obligations.

Derivatives. The GASB was considering feedback on its preliminary view document on derivatives. That document asked whether derivatives should be reported at fair value on a government's statement of net asset, and what note disclosures should be made.

Economic Condition Reporting. Following GASB *Standards No. 44* on using statistical section in the CAFR to report on a government's economic condition, the GASB was considering what information to add as well as the need for setting standards on this part of CAFR.

Interested readers may access www.gasb.org for continous updates of the status of the board's active projects.

In summary, American government accounting standards boards have continued to address a mix of broad conceptual and narrow technical issues. To the FASAB, stewardship assets and stewardship responsibilities pose formidable recognition and measurement problems. On the other hand, after more than twenty years, it appears that the GASB now has only relative insignificant issues to deal with.

MAJOR ISSUES IN AMERICAN GOVERNMENT GAAP

American government accounting standard setting faces governance, process and substantive issues. Unlike mathematical problems that can be solved, accounting standard-setting issues could only be resoved. Often, even substantive issues can only be dealt with only through voting to reach a socially acceptable decision. Who gets to decide and how decisions are made therefore are major governance and process issues in American government accounting.

Governance Issues

The governance issues concern who gets to participants in the standard setting process, the power and influence of the participants, and how they are organized to produce the standards efficiently and effectively. The last point brings up the issue of process, because there may be a tradeoff between efficiency and consensus-building for greater acceptance. The term "due process" is used repeatedly to describe the current standard-setting process. Could the process be structured in some other ways? Currently, FASAB and GASB set standards one by one continuously. Perhaps it is possible to set a cluster or group of related standards. And perhaps it makes sense to declare a moratorium in standard setting, and let government accounting systems stabilize and take shape. Another issue relates to the open and participative nature of the process. On the one hand, being open and participative gives the process the appearance of fairness. On the other hand, the outcome is influenced by the self-selection bias of respondents who answer to the boards' calls for comments on exposure drafts and other documents. Finally, while both the GASB and the FASAB profess to be sensitive to cost and benefit considerations, seldom if ever is evidence presented in support of the standard that is recdommended or mandated.

The current institutional structure for setting American government accounting was established in the 1980s. As Chapter 2 showed, it took protracted negotiations over 4-5 years to set up the GASB in 1984. One would have to go back to the 1921 Budget and Accounting Act, and perhaps all the way to the 1787 U.S. Constitution to understand the seemingly intractable conflicts between the legislative and executive branches regarding who should set accounting rules. From their histories, we know that the institutional structures of the GASB and FASAB rest on the delicate balance of professional, economic and political interests. If the balance of interests is managed successfully, the conflicts stay below the surface. At times, when one major stakeholder wishes to alter the terms its participation, the equilibrium is disturbed. The latent tensions rise to the surface and become viskble. At this time (late 2006), the FASAB is facing a potential governance crisis, and GASB's perennial deficits are symptomatic of some deeper causes of concern.

Governance Issues at the FASAB. As Chapter 3 explained, the original FASAB was restructured in 2003, reversing the ratio of the number of public members and Federal members from 3:6 to 6:3. The size of the board was enlarged to restore the seat previously held by the Congressional Budget Office (CBO). The newly configured board has been dealing with the accounting for social insurance programs (particularly social security) beyond recognizing amounts "due and payable" as a liability. As the deliberations proceeded, it became clear that the four Federal members continued to favor the status quo, while the public members favor the recognition of liability on the balance sheet of the Federal Government. Exhibit 6.4 identifies the milestones to the time when the FASAB issued a Preliminary View (PV) document to solicit public comments, instead of a more definitive Exposure Draft (ED).

Exhibit 6.4
Milestones in FASAB's Deliberadtions Concerning Social Insurance

October 10, 1990	The Federal Accounting Standards Advisory Board is established through a Memorandum Understanding among the Principals of the Joint Financial Management Improvement Program (JFMIP).
August, 1999	FASAB issues *Statement No. 17* requiring recognition of amounts due and payable on social insurance programs as liability.
October 19, 1999	The Council of the American Institute of Certified Public Accountants (AICPA) recognizes FASAB as the body promulgating Generally Accepted Accounting Principles (GAAP) applicable to Federal entities under Rule 203 of the AICPA'S Code of Professional Conduct—with a five-year review and renewal provision and recommendations to increase the FASAB's independence.
January 11, 2002	The FASAB's Principals announce the restructuring of FASAB, reversing the ratio of public members to government officials from 3:6 to 6:3 to go into effect on June 30, 2002. (An Appointment Panel will nominate board members.)
May 7, 2003	Memorandum of Understanding restores FASAB membership of a representative of the Congressional Budget Office (CBO), raising the total number of members to ten.
July 2003	FASAB issues *Statement No. 25* to require a Statement of Social Insurance as a basic financial statement. (Subsequently *No. 26* (November 2004) requires disclosure of significant assumptions, *No. 28* defers effective date to periods after September 30, 2005).
January 8, 2004	AICPA Review Panel presents recommendations to FASAB Principals, stressing the importance of FASAB's independence and proposing the establishment of a FASAB Oversight Panel.
May 20, 2004	The Council of the AICPA votes to renew the designation of FASAB as a promulgator of GAAP.
September 2, 2005	Comptroller General Walker writes to FASAB, urging it to focus

	on long-term sustainability of social insurance program.
November 29, 2005	Treasury Secretary Snow writes FASAB to oppose recognition of social insurance liability and favor expanded disclosure.
January 11, 2006	The social insurance project presents draft exposure draft to FASAB for review.
May 1, 2006	Acting OMB Director writes to FASAB Chairman on the proposed standard on social insurance, expressing concern about the split of opinion between public members and government members.
May 25, 2006	FASAB Principals issue a joint statement on financial reporting related to the sustainability of social insurance programs, expressing concern about FASAB's current discussions on social insurance.
May 25, 2006	Comptroller General Walker appears before the FASAB to convey the Principals' concerns about FASAB's current discussion to recognize a social insurance liability. Six public members favor and four government members oppose to issuing an exposure draft on a proposed statement on social insurance accounting.
June 29, 2006	FASAB Chairman responds to OMB Director's May 1, 2006 letter.
July 26-27, 2006	FASAB decides to issue a preliminary view document (instead of an exposure draft) on accounting for social insurance.
September 27-28, 2006	FASAB members vote unanimously to issue the preliminary view document
October 23, 2006	Preliminary view document is issued.

These recent developments surrounding the proposed standard on social insurance have raised a number of important governance issues.

If the same 6:4 parity held throughout the due process and FASAB issued a standard requiring the recognition of social insurance liability over the objections of the four government members and the Principals, the Director of the OMB and the Comptroller General would face a difficult decision of whether to veto the standard. Under the current rules of procedure, they have the right to do so, and the FASAB has no recourse.Such an action would, however, clearly jeopardize the independence of the board. Independence was an original concern of the AICPA in granting FASAB Rule 203 recognition and remained a concern even after the restructuring of the board. The negative effect of such a veto on the AICPA review of FASAB's Rule 203 status in 2009 would be a concern to the OMB and Comptroller General.

The potential conflict reveals the tension between the FASAB Principals' legal authority and the AICPA's professional authoritativeness, which the current arrangement attempts to balance. From the historical perspective, it is interesting to see that the conflict between the OMB (and Treasury) and GAO over jurisdiction for setting government accounting standards has been replaced by a potential conflict between the Federal Government officials and the body representing the accounting/auditing profession. The original interagency Memorandum of Understanding managed to find a way to bypass the Principals' assertion of exclusive jurisdictional authority. If OMB Director and/or the Comptroller General were to "veto" this or any standards issued by the FASAB, the action would put them on a collision course with the AICPA.

The word "veto" has been used in commentaries on this matter. But the current Memorandum of Understanding (MOU, dated May 7, 2003) does not use the word. The MOU contemplates the completion of the process (often referred to as due process, another term not used in the MOU) that concludes with completion of a *proposed* statement of concept or standard by actions of the OMB Director and the Comptroller General:

> When the Board has developed a proposed concept or standard, the Board shall submit it to the Comptroller General, the Director of OMB, the Secretary of the Treasury and the Director of the CBO for their review. If, within 90 days after its submission, the Comptroller General or the Director of OMB, or both, objects to the concept or standard, then it shall not be issued and will be returned to the Board for further consideration. If, within 90 days after it submission, neither of these officials objects to the concept or standard, then it shall be issued and become a final concept or standard of the Board. Concepts and standards will be announced in the *Federal Register*.

Words such as "proposed" and "submitted" clearly indicate the principal-agency relationship between the FASAB and its Principals, particularly the OMB Director and the Comptroller General. In essence, these government officials have delegated the technical task of developing Federal accounting and reporting standards to FASAB to take advantage of its expertise and diverse perspectives.

The author's interpretation of the above provision is that the Principals do not regard FASAB standards as a *fait accompli*. If so, it would not be necessary to keep the word "advisory" in the board's name. On the other hand, it would not be proper to go to the other extreme and conclude that the FASAB is subservient to the Principals either. The FASAB has been free to raise and discuss various options. To this extent, it is independent. In reversing the ratio of public and government members, the FASAB Principals opened up the FASAB deliberations to an unprecedented amount of external influence and thinking. But this does not negate the basic relationship between an advisory board and its Principals.

The AICPA seemed to assume that after the FASAB has completed its due process, the OMB Director and Comptroller General would in all likelihood not object, because that would jeopardize the board's Rule 203 status. They have not so far, but they reserve the right to do so. Otherwise they lose all the leverage and become a rubber stamp of FASAB. (Similarly, the SEC and the Congress of the United States do not give up their right to object to FASB standards.)

The source of such a conflict is independence as one of the requirements for a GAAP promulgator. One may ask: independence from what? from whom? "From undue influence of constituents," says the AICPA. Here the term "constituents" does not mean electorate in politics, but it is not clear who these constituents are. The AICPA does not seem to define it. It presumably refers to the parties subject to the standards.But it would seem a contradiction in terms to expect the FASAB as an advisory board to be independent of its creators. Apparently in their eagerness to consummate the Rule 203 designation, the AICPA and FASAB's Principals either overlooked or chose to minimize the scenario that is brewing with respect to social insurance accounting. What if one of the Principals objects? Does objection amount to a veto? Or does that action simply send the matter back to FASAB for reconsideration? FASAB can either come up with something that is acceptable to the Principals, or let the issue die of inaction.

If the AICPA decided not to renew the FASAB's Rule 203 recognition, it would in effect be declaring: so long as government wishes to use the term "Generally Accepted Accounting Principles", the government could not have *ultimate* control over the government's own accounting and financial reporting policy, If the AICPA respects the rule of law and the authority of the OMB Director and the Comptroller General under the law, it should refrain from withdrawing the FASAB's Rule 203 status because of one single standard, especially when the topic is so controversial and of such great public policy importance. If the OMB Director or the Comptroller chose to object (*de facto* veto) the FASAB's social security standards, while being aware of the probable adverse reaction of the AICPA in 2009 review, they would be underestimating the professional authoritativeness of the AICPA. It would mean that they would be unwilling to subsume legal authority under public accountability as symbolized by GAAP.

The FASAB is not just a drafting agency for the OMB, GAO and the Treasury. It is a deliberative body. But its deliberations do not take place in an institutional vacuum. In the overall design, it is in essence a public-private partnership between the Federal Government and the society. The AICPA should give credit to the Federal Government for giving the FASAB sufficient "space" in public policy making. By designating the FASAB initially under Rule 203, the AICPA in effect bought into the reality that the FASAB could not be wholly independent of its Principals. By putting a time limit on the FASAB's status as a GAAP promulgator, the AICPA in effect became a catalyst for pushing the FASAB in the direction of greater independence from its Principals. But if the AICPA were to deprive the FASAB Rule 203 recognition in 2009 over the OMB's and/or the GAO's objection over the FASAB's proposed statement on social insurance, it would have gone too far in challenging the legitimate authority of Federal Government officials.

Governance Issues at the GASB. The GASB has settled into a "peaceful co-existence" relationship with the FASB. The FASB is too busy with its own agenda to contemplate a take-over of the GASB. In its earlier years, the GASB issued a number of "negative" standards regarding the inapplicability of FASB standards to business and nonprofit entities in the public sector. But these issues have largely been settled. What has not been settled is the board's funding problem. Inadequate funding was the primary reason why the GASB started as and has remained a part-time board with a full-time chairman and a full-time staff. So long as the current funding level is sustained, the GASB can continue for the foreseeable future. Otherwise, a financial crisis might trigger talks about a potential merger with or acquisition by the FASB.

The GASB presents an interesting case study of walking a thin-line between responsiveness to stakeholders and independence as a regulator at the same time. The GASB's chairman has repeatedly stressed the board's willing to listen to its constituents and the openness of the due process. Its strategic plan has also called for extensive out-reach efforts. It is difficult to draw a line where responsiveness becomes succumbing under the undue influence of constituents. Does greater responsiveness lead to the GASB being "captured" by other groups? There is no evidence for that. One might, however, hypothesize that, other things being equal, the GASB has the incentive to demonstrate its productivity by issuing more standards and due process documents. There are signs that the GASB has become more aware of the need to justify its standards. It now includes a brief statement on how a particular standard will improve financial reporting. It has also issued "plain language" description of standards to make them accessibility to non-specialists.

The GASB faces the delicate task of balancing public access to its documents with its financial needs. If the GASB does not need the revenue, it would probably put all its pronouncements on the Internet for free access, as the FASAB does. In that case, the standards become public goods. But financial necessity has motivated the GASB to impose fees on its final standards, as well as annual editions of bound volumes of original pronouncements and codifications. To motivatge greater participation in its due process, documents soliciting public comments are available free of charge. It would be an exaggeration to say that economic considerations have influenced GASB's decisions, but they are a real and powerful constraint on what the GASB can do.

At explained in Chapters 2 and 3, the GASB/GASAC institutional structure resulted from a long series of complex negotiations. All the stakeholders signed on because inducements for them were no less than their expected contributions. From then on, the FAF and each organization on the GASAC exercise what Albert Hirshman calls "voice or exit" options. So long the marginal benefits are greater than the marginal cost, and the costs are affordable and in some sense a fair share, remaining in the coaliation is better than being left out of it. That is why the GASB/GASAC has been stable over time.

Conclusion. American government accounting and financial reporting has always been susceptible to influences outside of government. Accounting is a specialty requiring considerable expertise that each local or state government is too small to undertake the necessary research and development for standard setting. Therefore long ago government finance officers formed professional associations to serve as learning forums and mechanisms for codifying practices. Members of the accounting/auditing profession have always felt a civic obligation to help governments solve their financial obligation. This civic engagement became large-scale professional practice when state and local governments submit themselves to independent audits by CPAs to boost the credibility of their financial statements. This opportunity of professional service opened the door for the AICPA's to exert its influence by virtue of its monopoly over the designation of the bodies that can promulgate GAAP.

In the Federal Government, financial expertise used to reside mainly in the General Accounting Office and the Financial Management Service of the Treasury Department. However as the OMB assumed greater leadership in management functions, the Treasury has deferred to the OMB for policy direction. In view of its uniqueness and complexity, Federal accounting until recent decades was exclusive province of Federal civil servants with deep institutional knowledge. Individual CPAs early on played important roles in Federal Government financial management. However, it was not until the CPA firm Arthur Andersen & Co. volunteered to prepare corporate-style financial statements that for the Federal Government that professional involvement became substantial. The next big impetus came from the 1990 Chief Financial Officers Act that required audited departmental financial statements. This requirement created both the demand for uniform accounting standards and the need for financial auditors. FASAB was created to satisfy the first need, and CPAs were engaged to augment the ranks of federal financial auditors. Both of these developments eventually led to the move to seek AICPA recognition of FASAB standards as GAAP.

The AICPA's own relationship with GAAP evolved over time. Until the early 1970s, the AICPA's senior technical committee set GAAP. Following the recommendation of a commission in 1973, the AICPA withdrew from this direct involvement, and supported the formation of the FASB and itself became the designator of who could set GAAP. GAAP used to be concerned only with business accounting, but has become an umbrella covering three sets of standards: FASB's GAAP applicable to business and nonprofit organizations in the private sector, GASB's GAAP applicable to state and local governments, and FASAB's GAAP for the Federal Government.

Most of the governance issues have resulted from the ambiguities in defining the boundaries of what GAAP cover. For governments used to regulating the private sector, being subject to GAAP is a new experience. The accounting profession, steeped in the belief of objectivity and confident in its ability to find the truth (technically called "representational faithfulness") always abhors politics. Thus the AICPA insists on including independence as a criterion recognizing bodies promulgating GAAP.

Independence is worthy ideal to insulate GAAP setters from being subjected to the biases of the organizations that are subject to the accounting rules. However, could GAAP-setting institutions ever be completely independent? The AICPA did not withdraw the FASB's Rule 203 designation when the FASB occasionally bowed to SEC and Congressional pressure. One hopes that it will not do so if the FASAB's Principals occasional exercise their legal authority to block the issuance of FASAB standards, or state and local government refuse to implement GASB standards.

The GASB and FASAB are imbedded in the political and economic fabric of the country. No institutions are absolutely independent. Even the Supreme Court of the United States, regarded as the most independent institution, is part of checks and balance, and separation of powers in American government. So are the GASB, and the FASAB and its sponsors. Accounting standard setting is a specialized kind of legislating. Legislation does not take place in a vacuum. As a group activity, there is competition of ideas and there will be power struggles. Independent thinking GAAP setters may interpret "fair presentation" as variously as legislators interpret the public interest. The challenge is how to converge various and diverse views into a group decision.

Process Issues

Both the FASAB and GASB use a due process in setting standards. Due process means that the process is open to observation and participation by interested parties. The hope is that an open and participative process will promote greater credibility and eventual acceptance of the standards. If the process is perceived as fair, even those who disagree with the outcome would still be expected to comply with the standard. Due process is important in accounting standard setting, in part because it substitutes empirical research about the cost and benefits of proposed standards (see below). There are a few issues with the current process.

The first issue has to do with the low level of participation by certain stakeholders and the possibility of weak of representation of their interests. One might argue that the obligation of the boards is to provide the opportunities, and cannot be blamed for others' decisions not to participate. Nevertheless, the inability of the current process to reveal fully a wider range of viewpoints is a concern. Perhaps in response to this situation, the GASB permits remote participation in public hearings via telephone, and both the GASB and FASAB accept written commentaries, a less costly mode of participation.

The second issue is the use of cost-benefit criteria on standard setting. It appears that every FASAB and GASB standard is accompanied by a *pro forma* statement that the boards have considered expected benefits and perceived costs. Information about such expectations and perception comes largely from feedbacks to proposed standards, and seldom from empirical studies. Such studies are difficult to design and costly to conduct. It is doubtful that the boards have the staff resources to do such studies. Perhaps this is one area where academics have a comparative advantage. Unless they are commissioned to do so and are given adequate resource support, few academics would be willing or able to conduct such applied research projects. From the boards' point of view, the risk is that there is no guarantee that the study results will be sufficiently conclusive or targeted to meet their needs. In the final analysis, the boards are the arbiters of the cost borne by some versus the benefits enjoyed by others. This suggests that, instead of invoking the cost-benefit criterion as a routine statement, " the "basis of conclusions" of a standard explicitly identifies — even if quantitative measures are unavailable — whose benefits are likely to be promoted and who will bear the costs of the standard. For example, disclosure of unfunded pension and OPEB liabilities may trigger more funding, which is good for current employees and retirees, but bad for current taxpayers.

The third issue is the synchronization of conceptual framework research and the standard-setting process. It was noted earlier that both boards have resurrected conceptual framework studies in the hope of improving the conceptual foundation and consistency of the standards. The FASAB has put the conceptual framework project on a expedititious basis, but it still may not be fast enough to catch up with the on-going standard-setting activities. At the GASB, after the exposure drafts on elements of financial statements, deliberations about recognition and measurement will not begin until August 2007.

Whereas standards can be issued serially, a conceptual framework should be constructed as an organic whole, because of accounting concepts are interrelated. Ideally the conceptual framework should have been completed to serve as a road map or even blue print for actual standard-setting activities. The actual experience of the FASB in the 1970s in this regard was both costly and disappointing. Since then the FASB itself, and subsequently the GASB and FASAB have diminished expectations about the utility of conceptual frameworks. Thus the current standard-setting process is like building and designing a house at more or less the same time. The dilemma is that it is inconceivable to declare a moratorium of the on-going standard-setting process, pending the completion of a conceptual framework. In addition, experience has cautioned us not to wait for one and risk disappointment.

Perhaps one should not be overly critical of the current process. Again, one may draw an analogy with legislating and law. Legislatures keep on producing laws without a complete a theory of the public interest. Courts decide case without a complete theory of justice. Why? It is not for lack of ideas. After all, some of the greatest minds of Western civilization have pondered how to create a just society. The reason is there is no theory of public interest or theory of justice that command universal acceptance.

The prospect of applying accounting theories in standard setting is not any brighter. Out of a dissatisfaction with merely codifying current practices, a group of prominent accounting academics in 1966 produced *A Statement of Basic Accounting Theory* (American Accounting Association, 1966). In 1977, another group of accounting academics reappraised the state of accounting theory development. After surveying alternative business accounting theories, their report (*Statement on Accounting Theory and Theory Acceptance*) reached to the following conclusions:

- "theory closure cannot be dictated": no one has the authority to declare a winner among competing theories.
- "external [financial] reporting theory has a wider scope than that which has been generally perceived" and "the institutional structure and procedures by which this structure operates are *themselves* a part of external reporting theory."
- "all theory approaches are flawed when viewed from the perspective of some alternative approach" (pp. 49-50).

These conclusions hardly give accounting policy makers great confidence in the power of theoretical research: "until consensus paradigm occurs, the utility of accounting theories in aiding policy decisions is partial. … virtually all external reporting issues involve social welfare trade-offs. … in the absence of paradigm acceptance, it is unrealistic to expect accounting theory to provide unequivocal policy guidance. …" (p. 51). Justice Oliver Wendell Holmes put it more simply: "Great principles do not decide concrete cases," according to legal scholar Cass Sunstein (*Legal Reasoning and Political Conflicts*, 1996, p. 35).

Unfortunately the second AAA committee report was too influential: grand theorizing in business accounting came to a halt, and conceptual framework no longer was held up as the guiding light at the FASB. The situation in government accounting is different. Instead of having many conflicting theories, the lack of a theory is the problem. Thus even if one accepts the thrust of the report, it is important to interpret its messages properly. It says "the utility of accounting theories in aiding policy decisions is partial." Partial, not none. In other words, being incomplete and imperfect, accounting theories cannot and should not be allowed to dictate policies. Second, "virtually all external reporting issues involve social welfare trade-offs." Social welfare becomes a criterion for ranking and choosing from among alternative accounting treatments and reporting methods. Third, the approach taken in this study is vindicated: "At present, studies of the socio-political process as it relates to accounting policy information [*sic*, formation], voting strategies, means for eliciting 'true' preferences, and similar issues have not been widely applied to external reporting issues. However, … these too are a legitimate, albeit neglected element of external reporting theory deserving of research attention" (pp. 49-50).

Substantive Issues

Substantive issues are technical accounting and financial reporting problems. The list below includes topics or options that have not received adequate attention by GASB or the FASAB. The list is not intended to be exhaustive; they are the matters on which the author has an opinion. The issues are grouped in three areas: accounting and reporting entity; relations with the budget; and recognition and measurement.

Issue Area 1: Accounting and Reporting Entity A major issue is how many and what kinds of accounting entities are grouped together as a reporting entity. In state/local government accounting, a fund is the fundamental accounting entity, and is a reporting entity at the most detailed level of financial reporting. How to meaningfully aggregate the funds has occupied considerable attention of the GASB and its predecessors. A major move was to group funds into a manageable number of fund types, which are then categorized as governmental funds, proprietary funds and fiduciary funds. That made it possible to prepare combined financial statements. GASB *Statement No. 34* has insisted on keeping fund financial statements as basic financial statements. Sufficient large or significant funds are singled out as major funds for individual reporting, while the others are grouped together in one column.

There are two issues here: (1) The new grouping makes it impossible to identify and make financial analysis about two distinct kinds of funds: the governmental funds used to finance recurring operations (i.e. general funds, special revenues) in contrast to to those funds that are connected with the acquisition and financing of general capital assets (i.e. capital project funds and debt service funds). (2) A new fund type, called permanent funds, is placed under governmental funds, even though the latter have a current financial resources measurement focus and use modified accrual basis of accounting. Permanent funds, which are public-purpose endowment funds, are an anomaly a governmental fund because they have a long-term nagture.

The financial reporting entity used by the model required by GASB *Statement 34* is problematic. It requires the primary government to show on its government-wide financial statements a column to disclose component units, which are legally separately entities for which the primary government is financially accountable. However, these statements exclude fiduciary funds on the grounds that their resources are not available to finance the primary government's operations. It seems that if financial accountability were to be the criterion for defining financial reporting entity, fiduciary funds should be included as a separate column next to the primary government total, i.e. between the primary government total and the component units.

Regarding the Federal Government, two entity-related issues may be identified. The first is that the Federal Government's use of the term "trust fund" has caused considerable confusion, with some potentially serious consequences. The term is used to refer to both fiduciary funds and special revenue funds. The Social Security programs are budgeted and accounted for as "trust funds." This label makes it difficult to explain to the American people that the Federal Government does not save and invest their "contributions" for eventual payments to them.

The second issue is that the Consolidated Financial Statements has one column for the entire Federal Government. This is excessive aggregation. The Federal Government might adapt the GASB *Statement No. 34* model, and show subtotals for three distinctive types of activities: governmental activities, social insurance programs, and business-type activities (see Exhibit 6.5) The major social insurance programs are: Old Age and Survivor (OAS) Trust Fund and the Disability Insurance (DI) Trust Fund; the Medicare programs financed by the Federal Hospital Insurance (HI) Trust Fund for Part A benefits (e.g. hospital inpatient services), the Federal Supplementary Medical

Insurance (SMI) Trust Fund for Part B benefits (e.g. doctor's office visits) and Part D prescription drug benefits. An advantage of this reporting format is that the interfund transfers between the general fund and the social insurance trust funds can be shown. These transfers are now displayed in a schedule in the notes (reproduced in Exhibit 6.6)

Exhibit 6.5
Reporting Activities in the Federal
Government-wide Financial Statements

Governmental Activities		Business-type Activities	Total Federal Government
General Government Activities	Social Insurance Programs		

Exhibits 6.6 shows the financial relationships between the social insurance trust funds and the rest of the Federal Government. As the General Fund finances most of the rest of the Federal Government (labeled "other government" in the above table), for simplicity, we will refer to it as the General Fund. The upper left section of the table shows the results of *cash* transactions between each trust fund and the public, likewise between the public and the General Fund. The Hospital Insurance fund had a $2.8 billion cash deficit, the Supplementary Medical Insurance fund has a very large $117 billion cash deficit, and Social Security had $82 billion of cash surplus. The General Fund itself had a cash deficit of $280.5 billion of cash deficit. Thus the last column shows the Federal Government had a total ("unified budget") cash deficit of $318.5 billion in FY 2005.

Exhibit 6.6
Financial Interactions Within the Federal Government

Table 1
Annual Revenues and Expenditures for Medicare and Social Security Trust Funds and the Total Federal Budget, Fiscal Year 2005

(In billions of dollars)

Revenue and Expenditure Categories	Trust Funds: HI	Trust Funds: SMI	Trust Funds: OASDI	Trust Funds: Combined	Other Government	Total[1]
Revenues from the Public:						
Payroll and benefit taxes	177.7	-	604.9	782.6	-	782.6
Premiums	3.6	35.9	-	39.5	-	39.5
Other taxes and fees	-	-	-	-	1,331.2	1,331.2
Total	181.3	35.9	604.9	822.1	1,331.2	2,153.3
Total expenditures to the public[2]	184.1	152.7	523.3	860.2	1,611.6	2,471.8
Net results for budget perspective[3]	2.8	116.8	(81.6)	38.0	280.5	318.5
Revenues from Other Government Accounts:						
Transfers	0.5	114.0	-	114.5	114.5	-
Interest credits	15.1	2.6	91.8	109.5	109.5	-
Total	15.6	116.6	91.8	224.0	224.0	-
Net results for trust fund perspective[3, 4]	(12.9)	0.2	(174.0)	(186.7)	N/A	N/A

[1] This column is the sum of the preceding two columns and shows data for the total Federal budget. The figure $318.5 was the total Federal deficit in fiscal year 2005.
[2] The OASDI figure includes $3.9 billion transferred to the Railroad Retirement Board for benefit payments and is therefore an expenditure to the public.
[3] Net results are computed as expenditures less revenues.
Note: "N/A" indicates not applicable.
[4] Details may not add to totals due to rounding.

Source: 2005 Financial Report of the United States Government, pg. 48

The consolidated format cannot show was the financial transactions between the trust fund and the General Fund in the financial statements themselves. A trust fund lends its cash surplusit to the General Fund in exchange for internal government securities from the Treasury. The General Fund promises to pay the trust fund interest. When a trust fund runs cash deficit, it receives subsidies in the form of transfers from the General Fund. The lower portion of the table shows that in FY 2005, the Supplementary Medical Insurance fund received $114 billion in transfers from the General Fund.

The General Fund receives most of the taxes and fees, other than those dedicated to the social insurance trust funds. One may think of the General Fund as all American taxpayers. Despite its own a cash deficit of $280.5 billion in FY 2005, American taxpayers still provided a $114.5 billion subsidy for older Americans' health care. Besides, the General Fund incurred almost $110 billion in interest expense and interest payable to the social insurance funds, as it is required by law to pay interest for borrowed money. The effects of these intragovernmental transactions (totaling $224 billion) were eliminated in the process of calculating the government-wide deficit of $318.5 billion.

However, after taking into account the transfers and interest credits, the General Fund itself had a deficit $504.5 (= $280.5 + 224) in FY 2005.

In the author's opinion, the Consolidated Financial Statements should report the Social Security Trust Funds' holding of Treasury securities as intra-governmental assets, and the General Fund's borrowing from the Social Security Trust Funds as intra-governmental liabilities (see Exhibit 6.7, Panel A). As these two numbers offset each other, they will not affect the amount of net assets of the whole government, but will inform the American people what has happened to the annual cash surplus of the Social Security Trust Funds. Even though this treatment falls short of long-term liability recognition, this disclosure is meaningful because it indicates the long-term sustainability problem of the Social Security programs. When the "baby boomer" generation retires and the Social Security Trust Funds will eventually redeem their investments at the Treasury, taxes can be expected to go up and/or benefits will be reduced.

Exhibit 6.7
Unofficial Hypothetical Alternative Presentations of
Financial Position of the United States Government
as of September 30, 2004
(Dollar amounts in Billions)

Panel A: With Offsetting Intragovernmental Lending and Borrowing
(December 31, 2004 for the OASDI Trust Funds)

Total Asses	$1,397	Total Liabilities	$9,107
OASDI Trust Funds' investment in Treasury securities	1,687	General Fund borrowing from OASDI Trust Funds	1,687
		Net Position	-$7,710

Data source: Consolidated financial statements of the U.S. Government, FY 2004, and 2005 OASDI [Social Security] Trustee Report.

Panel B: With Addition of Social Insurance Responsibilities

Total Asses	$1,397	Total Liabilities	$9,107
		Social insurance responsibilities	37,279
		Total Responsibility	$46,386
		Net Position	-$44,989

Data sources: Consolidated financial statements of the U.S. Government, FY 2004; the social insurance responsibilities figure comes from the "Overall Perspective" table in the Management's Discussion Analysis. The components were: $24.6 trillion for Medicare, $12.5 trillion for social security, and $112 billion for railroad retirement.

Given the dispute over whether the Federal Government has a liability under the social insurance programs, another possibility is to separately list the $37 trillion as social insurance responsibility (Exhibit 6.7, Panel B). "Responsibility" is the exact wording used in the Management's Discussion and Analysis of the FY 2004 Consolidated Financial Report. The total number is labeled as "total responsibility" to avoid confusion with the accounting term "liability". In this presentation, the residual is unsatisfactorily called net position would be almost negative $45 trillion, instead of the negative $7.7 that takes into account only the assets and liabilities.

Issue Area 2: Relations with the Budget. American state/local governments are required to report budget comparisons as well as budget reconciliations in their financial statements. The budget comparison schedule discloses the original budget, final budgets, actual performance, as well as the difference between the actual and final budgeted amounts (schematically shown in Exhibit 6.8)

Exhibit 6.8
State/Local Government
Budget Comparison Schedule

	Budget			Variance:
	Original Amount	Final Amounts	Actual Amounts	Actual vs. Final Budget
Revenue	xxx	xxx	xxx	xxx
Expenditure	xxx	xxx	xxx	xxx
Surplus/Deficit	xxx	xxx	xxx	xxx

The Federal Government's Consolidated Financial Statements include two schedules to explain the differences between the accrual-based deficits and (a) the cash-based deficit, and (b) the amount of cash balance as of the balance sheet date. But there is no "budget to actual" comparison in the financial statements. Therefore there is no easily accessible information about how the Federal Government performed relative to its cash budget. The author believes that it would be useful to assemble such information from Treasury cash report and the Budget document in inclusion in the annual financial report, such as shown in Exhibit 6.9 for FY 2003

Exhibit 6.9
Proposed Budget Comparison for the Federal Government

Panel A
Cash Deficit Numbers for FY 2003 Ended September 30, 2003

Financial Indicator	Actual Result	Projection	Projection
Info. Available Date	February 2004	February 2003	February 2002
Information source	Treasury report	Budget of the U.S. Government	
Total receipts	+$1,782	+$1,836	+$2,048
Total outlays	-2,157	-2,140	-2,128
Cash deficit	-$375	-$304	-$80

Panel B
Budget comparisons for FY 2003 Ended September 30, 2003

Financial Indicators	Between the Projections in Feb.2002 and Feb. 2003	Actual result in comparison with revised projection one year ago	Actual result in comparison with initial projection two years ago
Total receipts	Downward $212	Shortfall $54	Shortfall $266
Total outlays	Upward 12	Overspending 17	Overspending 29
Deficit	Unfavorable $224	Unfavorable $71	Unfavorable $295

Issue Area 3: Realization, Recognition and Measurement. Realization reflects the historical nature of financial accounting. What distinguishes financial accounting from other systems of financial measurement is that it specializes in measuring the financial consequences of *past* transactions and events. Recognition is a binary decision: yes or no. Recognition decisions determine whether a resource is an asset or not. If yes, the resource is on the balance sheet, if no, it is off the balance sheet. Recognition decisions also determine whether an obligation is a liability or not. If yes, the obligation is on the balance sheet; if no, it is off the balance sheet. After the recognition decisions are made, the next question concerns financial measurement, which determines the monetary amount of an asset or liability.

Recently the GASB issued an exposure draft on elements of financial statements. In addition to the conventional assets, liabilities, net assets, revenues and expenses, the document introduces two new elements: deferred outflows of resources and deferred inflow of resources. These novel concepts are defined as follows:

- "A deferred outflow of resources is a consumption of net resources by the entity that is applicable to a future period"
- "A deferred inflow of resources is an acquisition of net resources by the entity that is applicable to a future period" (Summary of the "Elements" ED)

The exposure draft informs readers the prepaid expenses (e.g. rent) are not deferred outflows of resources, and that deferred revenues are not deferred inflows of resources, because they do not involve the decrease or increase of net resources, respectively. Rather, "deferrals may be looked at as future revenues and expenses waiting to be recognized – perhaps until required conditions have been met or a particular point in time has been reached" ("Build a Better Conceptual Foundation," August 2006).

The author sees a major problem with this proposal. If the deferred inflows and outflows of resources are *future* revenues and expenses awaiting recognition, they should not be recognized. Recognizing them now is a radical departure from the realization principle: with the exception of unrealized gains and losses from financial investments), in the absence of a transaction or an event to confirm the change in the value of an asset or liability, financial accounting will generally refrain from recognizing such changes.

Furthermore, the recognition of deferred inflow and outflow of resources cannot accommodated by the accounting equation: assets minus liabilities equals net assets:

Net assets = (assets+deferred inflows of resources) - (liabilities+deferred outflows of resources) = (assets – liabilities) + (deferred inflows of resources – deferred outflows of resources).

A statement of net assets defined this way cannot be related to the statement of resource flows because no deferred inflows our outflows of resources are included in this statement. So the formulation is internally inconsistent.

A major measurement issue involves the GASB's definition of the modified accrual basis and current financial resources measurement focus. The GASB's modified accrual basis corresponds to the mild accrual basis. As the GASB jumps from current financial resources to economic resources, it skips over long-term financial resources, and non-capital economic resources. As accrual is an elastic concept, the different degrees of accrual have to be delineated (as in Exhibit 6.10). By leaving out the intermediary cases, the GASB's system of basis of accounting and measurement focus is incomplete.

The GASB draws a useful distinction between capital debts and operating debts, which includes, besides deficit financing, deferred cost of service, such as pension and OPEB liabilities. Given the importance the GASB attaches to these concepts, it is puzzling why it does not require the explicit labeling of capital debts and operating debt.

To sum up this discussion, it is advisable for the GASB to require analytical categories for the balance sheet, such as shown in Exhibit 6.10.

Exhibit 6.10
Recommended Balance Sheet Classification

<table>
<tr><th>Assets</th><th>Liabilities</th></tr>
<tr><td rowspan="3">• Financial resources
  o Current financial resources
  o Non-current financial resources
• Non-financial resources
  o Non-capital economic resources
  o Capital assets</td><td>• Capital debt
  o Current capital debt
  o Non-current capital debt
• Operating debt
  o Current operating debt
  o Non-current operating debt</td></tr>
<tr><th>Net Assets</th></tr>
<tr><td>o Invested in capital assets, net of related debt
o Other net assets</td></tr>
</table>

Issue Area 4: Communication and Use. American governments disclose a great deal of financial information, accompanied by plenty of narrative explanation. Such full disclosure has created its own problems: the half dozen pages of government-wide financial statements are surrounded and possibly overshadowed by the hundreds of pages of financial disclosures.

More information may paradoxically lead to less use of financial reports, a these reports demand more time and skills to comprehend. The challenge facing American governments is to make comprehensive financial reports comprehensible. Perhaps it is time to renew the call for financial statements that can be easily identified and separated from the voluminous annual financial report. The Federal Government might consider the step of adding a "budget in brief" and "a financial report in brief" to the income tax return forms. State government can do likewise on state income tax forms. Local government can attach these financial documents to property tax bills.

Unless governments drastically reduce the cost of getting and analyzing financial statements and report, these documents will end up being ignored.

Summary and Conclusion

The previous chapters discussed the historical backgrounds, institutions and processes, and the standards of American government accounting and financial reporting at the Federal and state/local levels. The first part of this chapter has updated the work in progress of the FASAB and GASB up to the end of 2006. Both boards are working on the second round of conceptual frameworks. Unlike the first round, there appears to be less patience and greater realism. After two rotations, the third generation of GASB and FASAB members faces their own learning curves in the unique task of accounting standard setting. They wish to have more conceptual guidance, but their predecessors found that concepts were not of much help in making difficult choices among alternative accounting treatments and disclosure policies. However, in order to set standards in a non-arbitrary manner, no real substitute to conceptual framework has appeared. As the FASAB and GASB live on, their work may well be subject to the economic law of diminishing marginal return.

Judging from the active agenda items, the boards run the risk of spending their time and energy working on two extremes: abstract conceptual frameworks and narrow topics. Unless the boards adopt a different approach, future standards may become unduly specific and detailed. This may lead the FASAB and the GASB to face the call for "principles-based standards." Indeed, this author would argue that the time has come to derive some principles from the over fifty GASB standards and over thirty FASAB standards. Efforts to derive such principles would help one detect the inconsistency in current standards, and strive for greater generality to prevent practice from degenerating into the mechanical application of increasingly detailed rules. So far American accounting standards boards have behaved as if governments have an unlimited amount of time and resources to learn and implement growing bodies of accounting standards. Even though they pay lip service to cost-benefits constraints, they carefully word the criteria as expected benefits and perceived cost. There are few, if any, systematic and large-scale empirical research about whether these expectations are met, and the magnitude of the compliance costs. Thus the costs and benefits remain educated guesses at best.

The current system is good for specialists. In the name of ever improving accountability in the face of immense complexity of government finance, the boards keep on producing standards. These standards give rise to the need for perpetual continuing education for preparers and attesters, This situation may be good for professional associations, consulting firms, publishers, and software companies. However, sooner or later, someone is going to ask: Is what's good for accountants also good for government or the country? How much money are governments willing to spend to keep up with an ever expanding list of standards? This is anyone's guess. But the risk of standards over-load is real, and, however deep the government's pockets may be, it is not limitless.

In addition to the governance and process issues, this chapter has also identified several substantive issues:

- Entity issues: State/local government should consider including fiduciary activities in government wide financial statements. The Federal Government should consider elaborating the government-wide total in terms of activities, thus revealing the inter-fund transfers between the general fund and social security trust funds.
- Budget comparison: The federal government should consider including a schedule to compare actual revenues and expenditures with projected amounts.
- Realization, recognition and measurement: The GASB should reconsider the compatibility of deferred revenues and expenses with accounting equation. It should consider the intermediary degrees of modified accrual, and fully specify conceptual categories of assets and liabilities.
- Communication and uses of information: In order to increase use of financial statements, all governments should consider attaching brief budgets and financial statements to tax forms.

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