



National Association of State Auditors, Comptrollers and Treasurers

March 14, 2012

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

Project No. 13-3

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Preliminary Views (PV) document, *Economic Condition Reporting: Financial Projections*.

While we agree that the issue of fiscal sustainability is important for the government financial statement user community, and believe decision-makers and other stakeholders may desire forward-looking information such as projections and estimates to make fiscal and policy decisions, we believe this information is most appropriately communicated to all interested parties in a government's budgetary and similar documents. We **strongly disagree** that such information should be included (even as required supplementary information) in a government's general purpose external financial reporting. In addition, the required projections cannot practicably be developed without including some forecasts, which by their nature are volatile, unreliable, and often politically charged. As such, we believe such information falls well outside the realm of governmental accounting and financial reporting, and thus outside the GASB's purview and jurisdiction. Our disagreement with the preliminary views, and our belief that the Board should discontinue any efforts to promulgate where and how this information is communicated within external financial reporting, stem from a number of conceptual, operational, and practical reasons.

Projections of inflows and outflows and related forward-looking information are a product of budgeting requirements and budgetary processes, and are subject to change with each legislative session. These kinds of projections are developed by government officials using the parameters required or expected of them by laws, regulations, and policies. Projections may need to be one year, two years, or even five years, but should be based solely on a particular government's laws, regulations, governance policies, or economic assumptions—not based on an accounting standards setter's promulgation. Likewise, with respect to projections and forward-looking information, what information a government reports, how much information the government reports, and the format the government uses to report the information, should be based on what each government determines is appropriate to assist it for fiscal and policy analysis and purposes. Such information should not be based on a basis and format prescribed by a standards setter. Furthermore, this type of information is inherently subjective and subject to continual changes in economic and political conditions, and therefore, lies outside the focus of objective and verifiable accounting and financial reporting. We strongly believe communicating this type of information should remain solely an activity within a government's budgetary process.

We do not agree with, and are not persuaded by, the Board's conclusion that reporting financial projections and the related narrative discussions are essential for placing the basic financial statements and notes to the basic financial statements "in an appropriate, operational, economic, or historic context" (GASB Concepts Statement 3, paragraph 42). We fail to see how

projections such as those proposed in the PV would provide any information that helps a user understand the operational or economic context of the historical results that are presented in the financial statements. GASB Concepts Statement 3, paragraph 44, which states that RSI does not include “subjective assessments of the effects of reported information on the reporting unit’s future financial position,” supports our position that the PV’s proposed financial projections do not meet the criteria for reporting as RSI.

One of the basic premises for inclusion in financial statements is that the information be measurable with sufficient reliability—a standard that these projections cannot meet. We believe that the financial projections proposed in the PV are based on highly subjective assumptions that can be affected by many significant factors that are unknown at the time the data is being compiled. A point-in-time set of projection assumptions belies the complexity involved and the need to continually address economic, financial, and political fluctuations in order for the projection to be meaningful. Annual financial reporting cannot address this need. Also, a government’s prospective financial activities are subject to changes due to the composition of its executive and legislative bodies, assumptions that may or may not result from consensus, and manipulation to produce desired results. In addition, because of the nature and timing of financial reporting and audits of financial reports, the financial projections proposed to be provided in the Comprehensive Annual Financial Report would unavoidably be considered outdated by the time the CAFR is issued.

We believe some information that enables users to assess fiscal sustainability is currently available in CAFRs. The ten-year trend information for Changes in Net Assets (accrual basis) and Changes in Fund Balance of Governmental Funds (modified accrual basis), currently presented in the statistical section of the CAFR, provides users with most of the information necessary to extrapolate future periods for assessing fiscal sustainability. In addition, the Notes to the Financial Statements currently provide debt-service schedules and other relevant data for many of the government’s reported long-term liabilities and the Management’s Discussion and Analysis provides limited information on known policy changes for the next fiscal year. We believe this information enables users to make a sufficient and fair assessment of anticipated economic and other activities and their potential effects on a government organization.

We also believe that financial projections included in general purpose external financial reporting could be misleading to, and possibly misinterpreted by, the users of that information. By including this information in RSI, we believe that users will presume some level of assurance that the information is audited or verified by the government’s auditors. While the audit opinion describes the limited work and lack of opinion on the accuracy of the projected information, it is likely that users will implicitly believe it is accurate. The inclusion of projections in RSI inappropriately lends substantial credibility to the information regardless of the fact that the auditors do not opine on the RSI.

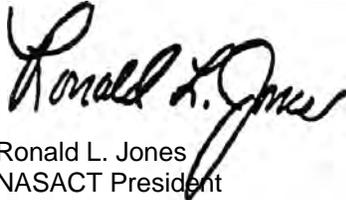
As a final point, we doubt the benefit derived exceeds the cost to governmental entities in reporting financial projections and related narrative discussions in annual general purpose external financial reporting. We are concerned about the negative impact the preparation of these projections will have on the timeliness of issuing audited financial statements. These projections will create an extraordinary amount of additional effort, including modifications to processes for capturing, preparing, validating, and reporting this information. Governments currently have to make hard choices when allocating resources, and will generally allocate resources towards providing services to citizens rather than for additional financial reporting costs. Governments are already working with limited resources and devoting the additional time required to gather and report this information will have a substantial negative impact on the timeliness of issuing financial reports. We also believe we are already at the point of providing the user constituencies with so much data that it has diminished the overall value of the information provided in the financial reports.

We strongly believe that the Board should discontinue this project. As such, we respectfully decline to answer the PV document’s list of questions, as they are not relevant to our position on this proposed document.

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We appreciate the opportunity to provide our comments on this important subject. Should you have any questions or need additional information regarding our response, please contact Sherri Rowland of NASACT at (859) 276-1147 or me at (334) 242-9200.

Sincerely,

A handwritten signature in black ink that reads "Ronald L. Jones". The signature is written in a cursive, flowing style.

Ronald L. Jones
NASACT President