



Governmental Accounting Standards Board
of the Financial Accounting Foundation

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GASB Presents Preliminary Views on Financial Projections

On November 29, the Governmental Accounting Standards Board (GASB) approved a Preliminary Views, *Economic Condition Reporting: Financial Projections*. The document presents the Board's initial thinking on what it believes are the key issues related to reporting financial projections to assist users of governmental financial reports with assessing a government's economic condition. The GASB is seeking public input on the views expressed in the document before considering whether to develop proposed new standards.

Why Is the GASB Issuing This Document?

The National Council on Governmental Accounting, the GASB's predecessor organization, stated in its Concepts Statement 1, *Objectives of Accounting and Financial Reporting for Governmental Units*, that one of the basic objectives of accounting and financial reporting for governmental entities is, "To provide financial information useful for determining and forecasting the financial condition of the governmental unit and changes therein."

GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, states that "Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due [by]...providing information about the financial position and condition of a governmental entity."

The GASB's research finds that although much information that is valuable to users can be found in an annual financial report at present, there is still much crucial information that users cannot yet obtain. In particular, little information is provided that specifically reports on the sustainability of government finances. Users need forward-looking information to assess fiscal sustainability.

The Board defines fiscal sustainability as a government's ability and willingness to generate inflows of resources necessary to honor current service commitments and to meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits.

What Are the Board's Preliminary Views?

The Preliminary Views contains the Board's initial proposals for how governments would provide forward-looking information to users in the form of financial projections. Based on the Board's extensive research, its preliminary view is that five components of information are necessary to assist users in assessing a governmental entity's fiscal sustainability:

- Projections of total cash inflows and major individual cash inflows, in dollars and as a percentage of total cash inflows, with explanations of the known causes of fluctuations in cash inflows
- Projections of the total cash outflows and major individual cash outflows, in dollars and as a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows
- Projections of total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts, with explanations of the known causes of fluctuations in financial obligations
- Projections of annual debt service payments (principal and interest)
- A narrative discussion of major existing intergovernmental service interdependencies and their nature.

It is the Board's preliminary view that these components of fiscal sustainability are essential for placing a government's basic financial statements and accompanying notes in an operational or economic context and would be required to be included as required supplementary information (RSI) of all governmental entities' annual financial reports.

Why is this information important?

Extensive research conducted by the GASB has demonstrated that users of state and local government financial statements need information on these five components to assess a government's financial health in a comprehensive manner, and to make their assessment regarding an entity's financial viability or fiscal sustainability.

In addition, projections of inflows and outflows of resources are essential to assessing *interperiod equity*—a government's ability to meet annual spending needs with current-period resources, rather than pushing costs off to the future or consuming accumulated resources. Projections of financial obligations, such as bonds and unfunded pension liabilities, reflect the future financial impact of a government's past decisions and help users to evaluate a government's capacity to meet those financial demands as they come due.

An *intergovernmental service interdependency* exists when one government provides a service on behalf of another government, or together with one or more governments. The component regarding narrative discussion of major existing

intergovernmental service interdependencies would provide users with information to assess the fiscal implications of a major service interdependency and how changes in this major service interdependency may impact a government's fiscal sustainability.

How would the financial projections be done?

Inflows and outflows would be projected on a cash basis and financial obligations would be projected on an accrual basis. Projections would be made for a minimum of each of the next five fiscal years. The financial projections would be based on current policy, informed by historical information, and adjusted to take into account known events and conditions that affect the projection period. Current policy includes policy changes that have been formally adopted by the end of the reporting period but do not become effective until during the projection period.

The Board does not believe that specific assumptions should be prescribed. Rather, the assumptions underlying the projections would be selected by a government following a set of guiding principles. Under these principles, the assumptions would be (a) consistent with each other and with the information used as the basis for the assumptions and (b) comprehensive by considering significant trends, events, and conditions.

Disclosures of the assumptions a government chooses would be required in order to help users understand how the financial projections were made and to assess their reasonableness. The Board believes that identifying guiding principles rather than specifying particular mechanics would result in governmental entities making more relevant and reliable financial projections.

The components of fiscal sustainability information would be reported for the primary government, including both governmental activities and business-type activities. The cash inflow and outflow information would include net subtotals (inflows less outflows) for the general fund, other governmental activities, total governmental activities, total business-type activities, and a net total for the entire primary government. Notes to RSI would be necessary in instances when one or more activities are determined to significantly affect the fiscal sustainability of the primary government.

An individual cash inflow, cash outflow, and financial obligation of a governmental or business-type activity would be projected separately if it is viewed as "major." Major inflows, outflows, and obligations include the following:

- Any governmental or business-type activity cash inflow, cash outflow, or financial obligation that equals at least 10 percent of total cash inflows, total cash outflows, or total financial obligations, respectively, for all activities of that type in any reported projection period
- All cash outflows for capital
- All capital-related cash inflows from bond proceeds, capital grants, or other sources restricted or committed to capital outlays

- Any other cash inflow, cash outflow, or financial obligation that a government believes is particularly important to users when making an assessment of fiscal sustainability.

It would be a matter of professional judgment to determine which intergovernmental service interdependencies are considered major.

How would users be helped to understand what projections are?

Under the Board's preliminary view, a cautionary notice would precede the financial projections and related narrative discussion to place the information into context. The cautionary notice would inform readers that projections do not represent a forecast or prediction of likely outcomes. Because projections are based on assumptions that are inherently subject to uncertainty and changes, the notice would caution readers that actual future financial results may be significantly different from those reported.

What Is Included in the Alternative View?

Two Board members hold an alternative view to the Board's preliminary views. While these Board members believe financial projections are within the scope of the GASB and are appropriate for the Board's agenda, they do not believe reporting financial projections is essential and, consequently, is not appropriate for inclusion in RSI.

How Can You Help the GASB with This Project?

You can assist the GASB by reading the Preliminary Views, *Economic Condition Reporting: Financial Projections*, and providing feedback. The document may be downloaded free-of-charge from the GASB website, www.gasb.org. The comment deadline is March 16, 2012.

You can submit comments by email (director@gasb.org) or traditional mail. Additional information about responding to the document can be found in the front of the Preliminary Views, and on the GASB website by clicking on the links below.

Public hearings are scheduled for March 29 in Los Angeles and April 17 in New York City. Interested parties may attend in person or participate by telephone. Individuals or organizations that wish to make an oral presentation need to provide written notification of their intent by March 16 for either public hearing.

Read the [Preliminary Views](#)

View the [Project Page](#)