

GASB Seeks Comments on Financial Reporting Proposal

by Sophia M. Stadnyk, Senior Associate Counsel

On November 29, 2011, the Governmental Accounting Standards Board (GASB) approved a proposal, *Preliminary Views, Economic Condition Reporting: Financial Projections*. Among other things, this would require State and local governments to present five-year projections of cash inflows, cash outflows, and financial obligations, to be submitted as supplemental information with these entities' regular financial reports.

According to the GASB website,[1] the *Preliminary Views* document outlines the initial proposals for "how governments would provide forward-looking information to users in the form of financial projections" over a five-year period, based on the Board's view that five components of information are "necessary to assist users in assessing a governmental entity's fiscal sustainability." These five elements are:

- 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 post-employment 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.[2]

Accordingly, the proposal recommends this information be included as required supplementary information (RSI) to all governmental entities' annual financial reports, with the goal of enabling users of such reports to evaluate that government's financial health in a more comprehensive way, and to make an assessment of that entity's financial viability or fiscal sustainability.

In support of this proposal, the GASB notes that "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," and projections of financial obligations (like bonds or 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."[3] In addition, the Board recommends that "a cautionary notice... precede the financial projections and related narrative discussion to place the information into context," to inform readers that "projections do not represent a forecast or prediction of likely outcomes."[4]

The GASB is now seeking public input on the views expressed in the *Preliminary Views* before considering its next steps, and is asking users to "let us know if we got it right, or if additional information, or modifications to the information, are needed to allow you to make your assessments of a government's fiscal sustainability."[5] The *Preliminary Views, Economic Condition Reporting: Financial Projections* document may be downloaded free from the GASB website, www.gasb.org. The comment deadline is March 16, 2012. The website advises that comments may be submitted by e-mail (director@gasb.org) or by regular mail. Additional information about responding to the document and participating in public hearings scheduled for March and April 2012 can be found on the GASB website.

Notes

1. *The User's Perspective, The GASB's Preliminary Views on Financial Projections* (December 2011) at http://tinyurl.com/78vml47.
2. *Id.* According to the website, two Board members hold an alternative view and do not believe that reporting financial projections is essential and, therefore, is not appropriate for inclusion in RSI.
3. *Id.*
4. *Id.*
5. *Id.*

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