

**From:** Dave Hardison  
**Sent:** Friday, December 09, 2011 2:46 PM  
**To:** Director - GASB  
**Subject:** Project No. 13-3

Director of Research and Technical Activities, Project No. 13-3,  
Economic Condition Reporting: Financial Projections

I believe the fundamental problem with the Preliminary View is the assumptions. Specifically, the assumptions that underlie question #6:

“The Board’s preliminary view is that all of the components of fiscal sustainability information are essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context and therefore should be required and communicated as required supplementary information (Chapter 5, paragraphs 7–12). Do you agree with this view? Why or why not?”

There are two assumptions that underlie this question, and both are questionable.

The first assumption is that “components of fiscal sustainability information” can be determined by accounting means. Accounting is a method for recording past and present financial transactions. Projections, by definition, represent uncertain future transactions, and are therefore not susceptible to traditional accounting. Moreover, this is not an “accounting” standard, except in the sense that we would be including non-accounting information in an accounting report.

The second assumption is that “fiscal sustainability information” can be described and evaluated using financial projections and narrative discussions. This assumption is contradicted by history. The least sustainable government practices in the world, each year since the invention of money, have been adopted under the auspices of glowing five-year projections.

Generally speaking, the conditions that have led to government failures have been unpredicted: Political expedience has played a role, of course, but sudden economic sea changes are the most likely suspects. To imply that these can either be measured or ignored is to invite lawsuits: Any information in a CAFR that implies knowledge of the unknown will be used as a battering ram rather than a management tool.

In fact, there is no way such information could ever be used to improve sustainability.

Governments that show excess cash flow will be pressured to make plans to lower taxes (or increase spending, or both), leading to less sustainability, rather than more. Governments that show the “worst case scenario” to protect against fiscal irresponsibility (and against lawsuits) will be punished at the voting booth by opportunists willing to use CAFR forecasts as proof of financial failure.