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February 29, 2012

Director of Research and Technical Activities,
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VIA E-mail director@gasb.org

RE: Project No. 13-3 Preliminary Views Economic Condition Reporting: Financial Projections

The Governmental Accounting and Auditing Committee is a senior technical committee of the California Society of Certified Public Accountants representing approximately 38,000 members. In response to the Governmental Accounting Standards Board's (GASB) Preliminary Views on Economic Condition Reporting: Financial Projections, we offer the following comments:

General Comments

We recognize that financial sustainability of state and local governments is a fundamental issue that merits attention and we appreciate GASB considering how to meet the needs of users of financial information. We also agree that historical financial information can be best understood in the context of present and near term economic conditions. However, we believe that the presentation of projections of economic conditions affecting sustainability is best presented in other documents currently produced by governments. We do not agree with the views expressed in this PV that projections of cash inflows and outflows be included in the financial statements.

The qualitative characteristic of reliability that is defined in the Preliminary Views (page 23) is important guidance in determining what information should be included in the financial statements. We believe that projections or forecasts of cash inflows and outflows based on variable assumptions and changeable governmental policies, while used appropriately in economic projections in other stakeholder communications, should not be included in the financial statements as unaudited required supplementary information (RSI) i. We point out that economic assumptions that determine cash inflows and outflows are subject to reasonable disagreement in a pluralistic government and believe that Official Statements and financial forecasting in budget preparation provide the timely, relevant information to investors and stakeholders.

Cash projections in the financial statements introduce ambiguity

The financial statements report the financial condition of the government at a point in time. Introducing forward looking projected information introduces debate and potential controversy into a document that should stand on the opinion of the auditors. Governmental entities experience a plurality of opinions; consequently the assumptions underlying forecasts of cash inflows and outflows are often debated and changed by elected officials. Frequently there is no consensus until an annual or biannual public budget process is completed and a budget is adopted by the legislative body.

The expenditure of funds to match resources is the core business of government and many governments are legally obligated to balance resources with expenditures each year. A prediction of surplus and deficits is a mathematical result that has yet to go through a public vetting and approval process where additional resources (surpluses) are often consumed by budget amendments by expanding services, and deficits resolved based on tough decisions by governments. This is government's core work. To get ahead of this process by projecting surpluses and deficits in the financial statements introduces a high degree of ambiguity and debate on assumptions.

It would not be reasonable for management preparing the financial statements to forecast budget surpluses and/or deficits years ahead with the result that labor organizations, the legislative body, or other stakeholders raise or lower expectations ahead of a budget approval process. As a result, to include these forecasts in the financial statements opens up the report to political debate and undermines its acceptance.

Financial forecasting is integral to the budget process

Instead, governments are encouraged to develop annual planning documents like five year financial forecasts to discuss at length competing requirements for services, available resources and economic conditions. We believe these formats and documents wherein economic issues are explored in depth provide the appropriate context for stakeholders and readers of financial statements that GASB is seeking to address.

The Government Financial Officers Association's (GFOA) best practice is to develop a five year forecast as part of budget planning and we believe that more governments need to adopt this practice to present the economic sustainability context to enhance understanding of the audited and historical financial data in the financial statements.

Forecasting and financial planning are essential for good government, and all entities should adopt GFOA best practices. To include these forecasts in the financial statements, we believe, can potentially mislead the market and stakeholders as to the near term future financial position of the government.

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Reliance of current policy to inform cash inflow and outflow projections

While this may appear to offer a benchmark for cash projections, in practice current policies in government are changed, overlooked or superseded when new priorities emerge from stakeholders and elected officials respond. Policies that direct spending priorities are changeable as new issues emerge and new officials come into office.

Sustainability information is best presented to investors and other stakeholders in Official Statements

We believe that the contextual information on sustainability is best presented to investors and interested parties in the Official Statements released to investors for bond offerings. The Official Statement information is timely, complete and relevant, and contains details on economic factors and forecasts of economic conditions that need to be made known to investors.

Forecasts of salary increases or decreases

State and local governments bargain in good faith with their labor organizations on an annual or periodic basis. The PV indicates that forecasts can include projections of salary increases (or potential decreases) in the cash outflow projections. Bargained increases that are agreed upon are included in the financial statement footnotes. It would be problematic to include assumptions about future salary increases or decreases in the cash outflows ahead of completing a collective bargaining process.

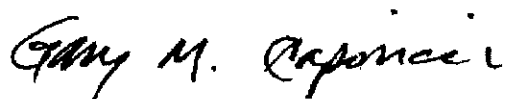
Assumption regarding future tax increases

The assertion in the PV that projections of deficits would signal future tax increases is not necessarily the conclusion that should be drawn. Voter approval is needed for some state and local governments and in others elected officials use this route judiciously. Projected deficits may signal service reductions or the implementation of efficiencies to reduce the cost of government, not tax increases. This is an example of extrapolation that could only confuse or mislead readers, not enlighten them.

We believe that the information that provides the most appropriate context to financial statements is available from other sources such as standalone five year financial forecasts and Official Statements when issuing bonds. Adding projections of cash inflows and outflows to the RSI in the financial statements would be problematic and we believe would have the potential to mislead and confuse users of financial statements.

If there are questions about our position on this letter, please feel free to call Gary M. Caporicci at 949-422-1615.

Sincerely,



Gary M. Caporicci
Chair, Governmental Accounting and Auditing Committee
California Society of Certified Public Accountants