March 6, 2012

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via email: director@gasb.org

Dear Sir:

On behalf of the Florida Government Finance Officers Association (FGFOA), we are pleased to respond to the Government Accounting Standards Board’s (GASB) Preliminary Views of the GASB on major issues related to Economic Condition Reporting: Financial Projections. These comments were prepared based on a review by the FGFOA members, its Technical Resources Committee, and the Board of Directors.

We have reviewed the preliminary views statement and feel that rather than respond to the several individual questions posed by the Board, we would prefer to address the general nature of the objectives and rationale for this project.

The FGFOA is concerned that the GASB may attempt to use its power of setting “generally accepted accounting principles” to require the presentation of forward-looking information that attempts to capture, not the historical results of operations and financial position, but very imprecise projections of inflows and outflows for a minimum of five years. While such projections can undoubtedly be of great value to elected officials, financial managers, citizens and others (and indeed often are used in the budgetary process), they clearly lie outside the proper scope of generally accepted accounting principles (GAAP). To use GAAP to mandate the reporting of such forward-looking financial projections, in the FGFOA’s view, would exceed both the GASB’s jurisdiction and its technical competence.

In addition, the very nature of projecting inflows and outflows over a long period of time requires extensive use of subjective economic assumptions. These assumptions become more and more unreliable the further out into the future they go. These projections do not meet GASB’s stated goal of enhancing accountability as there are no accepted sets of assumptions upon which local governments could rely. This lack of uniformity will result in an inability to create meaningful comparisons between different governments.
Furthermore, it is unlikely that small governments, which represent the bulk of the 87,000 plus governments in the United States, would have access to the sophisticated econometric tools and skills needed to produce reliable financial projections. Hence, the value to stakeholders will be inconsistent based on the resources available to the reporting entity.

Finally, the inclusion of this category of information as required supplementary information (RSI) will lead the casual user of such RSI to assume a level of reliability that simply does not exist in a forward-looking document that extends beyond six months. Long-term economic forecasts have rarely ever seen actual results that come remotely close to the original projections. That is why forecasts are used as part of a financial planning process, not a financial reporting process. While a certain amount of the information currently included in the financial statements is the product of reasonable estimates and assumptions by management, it embodies far less subjectivity than is inherent in economic condition forecasting. It should also be noted that including this information as RSI would be in conflict with paragraph 44 of Concepts Statement No. 3, which provides that RSI should not include subjective assessments.

Therefore, the FGFOA takes the position that while forward-looking financial projections are valuable budgeting tools they are not suitable for inclusion in the government’s financial statements, which are traditionally and universally understood to be accurate and reliable presentations of the results of the entity’s operations and financial position.

We would like to thank the GASB for their efforts in preparing the Preliminary View and for the opportunity to respond. Should you require additional information, feel free to call me at 941.954.4185, or email me at Christopher.Lyons@Sarasotagov.com.

Sincerely,

Christopher Lyons
Christopher Lyons
FGFOA President