

From: Ron Harring [mailto:rharring@ctsfl.us]
Sent: Tuesday, April 30, 2013 10:55 AM
To: GASB Scope
Subject: GASB scope of authority

In reading the GAAFR Review, that I received today, I became aware that the FAF had an RFC for requesting views on "GASB's Scope of Authority: Proposed Changes to Agenda-Setting Process". From what I understand the comments are due back today April 30, 2013. When I read the article in the GAAFR Review and then read the RFC on the FAF web-site I thought it was important for me to respond. I was excited to see that there could possibly be some necessary oversight of GASB.

In back tracking a little, I just want to say that I am a big fan of GASB and the standards and improvements that they have implemented for Governmental Accounting and Statements. I have always tried to respond to all exposure drafts, have been a field test site for GASB and implemented GASB's early. This year we implemented GASB's 61, 63 and 65. I have also been a member for the past ten years and at times chairman of the FGFOA Technical Resources Committee whose task is to respond to proposed GASB Projects.

But, Project No. 13-3 Preliminary View "Economic Condition Reporting: Financial Projections" came out for comment a little over a year ago and I responded in March of 2012 (attached). I have also written articles for the FGFOA and have attached that article on Financial Projections, if it helps. Without going into the details as are explained in my attached responses, it seemed that GASB was trying to validate the need for Financial Projections. In my responses I tried to point out the discrepancies and that GASB was not adhering to Concept Statements No. 1 and 3.

To try to summarize and not go into too much detail, I was very disappointed with GASB. Disappointed that GASB would not listen to their constituents, 89% of PV respondents did not agree with this PV (yes I counted them). They agreed that Financial Projections were important, but, that they did not belong in the audited financial statements. I have been so disappointed that I decided that I would not respond to any more GASB ED's or PV's, even though I probably will, and I noticed that there have not been any PV's or ED's for comment the past 6-8 months.

What you are doing with this RFC is important and needed to ensure that GASB has the necessary oversight and hopefully will listen to its constituents.

Thanks for your time,

Ron

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March 15, 2012

Director of Research and Technical Activities
Project No. 13-3
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 City of Tarpon Springs, Florida we are pleased to respond to the Government Accounting Standard Board's (GASB) Invitation to Comment on the exposure draft preliminary views, *Economic Condition Reporting: Financial Projections* (the "PV").

"GASB: Fact and/or Part Fiction"

I first want to say that I have always supported GASB in the accounting changes over the years and have made an effort to respond to ED's and PV's as they are introduced. The only GASB pronouncements that I have not agreed with are SEA and OPEB (Implicit Rate Subsidy). As I was reading this "PV" I kept thinking of how it reminded me of SEA and how GASB is straying beyond the purpose of GASB and should not set standards for Fiscal Sustainability Reporting. The Comprehensive Annual Financial Report (CAFR) has always represented "Fact" with actual verified audited numbers, but what I fear with this "PV" is that now the one report that is based on actual "Fact" is now going to be blemished with the introduction of subjective, unreliable and untimely projections based on a concept called Fiscal Sustainability Reporting "Part Fiction", and that is why I mention above "GASB: Fact and/or Part Fiction".

I am glad that the "PV" came out at this time, as we are in the middle of completing our audit and our CAFR. The amount of time and effort currently necessary to complete year end entries, work with auditors and compose the CAFR, which includes Financial Statements, Notes, MD&A, Letter of Transmittal and Statistics is already a daunting task. We have a September 30, fiscal year end and I can not imagine having to also put together the requirements of the "PV" at this time. It is March 15, (five and one half months since our fiscal year end) and we still do not have our final audited statements. If I had to make a "Projection", I estimate that producing the reports required by the "PV" will require at least an additional 40 hours of staff time and at least an additional 8 hours of time involved with our auditors. The example of the statements in the Appendix of the "PV" may not seem that involved but there would have to be a more voluminous spreadsheet detailing all the revenues and expenditures of all the accounts and of all the funds that accumulates the numbers necessary for these proposed statements. Would this time required to produce these reports as required by the "PV" have a negative affect on the CAFR by subverting time necessary to complete the CAFR as is currently required. I have trouble imagining how smaller governments will have the time and

capability of providing the information required by the “PV”.

There is the subjective nature of the required Projections of the “PV” and a political element. Will governments with limited time (the completion of the audit and CAFR as it currently stands) have the ability to fully produce projections and how reliable will they be? Will governments avoid a deficiency of cash inflows as compared to cash outflows and adjust inflows and outflows accordingly so as to avoid a deficiency and not have their credit rating negatively affected. Would some governments want to show a deficiency in order to show the necessity for increased revenues and tax increases.

Chapter 1 Objectives and Background of the “PV”

Chapter 1 states that research participants responded that forward looking information as presented in the survey would be beneficial. But I believe when a survey such as this is asking “if more is better” then it would illicit a positive response.

Chapter 1 states that the “PV” refers to paragraph 35 of Concepts Statement No. 1 “Objectives of Financial Reporting” as validating why States and Local Governments should provide forward looking information.

But I believe they are taking this paragraph in the wrong context.

Paragraph 34 of Concepts Statement No. 1 “Objectives of Financial Reporting” states that:

“Financial reports are commonly used to assess a state or local governments financial condition, that is, its financial position and its ability to continue to provide services and meet its obligations as they come due. Assessing an entity’s results of operations for current and previous years provides each user group with information that is useful in a variety of ways.”

Paragraph 35 of Concepts Statement No. 1 “Objectives of Financial Reporting then states:

“Investors and creditors need information about available and likely future financial resources, actual and contingent liabilities, and the overall debt position of a government to evaluate the government’s ability to continue to provide resources for long-term debt service. They review operating results and cash flow data (both currently and over time) to look for trends that may indicate strengths and weaknesses in the ability of the government to repay debt. Trend analysis helps investors and creditors project future revenues and predict possible allocation of those revenues.”

The PV does not mention the last sentence of paragraph 35 about trend analysis. I believe paragraph 35 is saying that based on paragraph 34 by “Assessing an entity’s results of operations for current and previous years”, Investors and creditors use “results of operations for current and previous years” to look for trends and they then use these trends to project future revenues and predict possible allocation of those revenues.

Chapter 1 then refers to paragraph 79 of Concepts Statement No. 1 “Objectives of Financial Reporting” and misinterprets this section as validating the need for forward looking information. Wherein paragraphs 77 and 78 provide the basis for what should be in financial reports.

Paragraph 77 of Concepts Statement No. 1 “Objectives of Financial Reporting” states that financial reporting should provide information on current year information by stating:

77. Financial reporting should assist in fulfilling government’s duty to be publicly accountable and should enable users to assess that accountability.

- a. Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services. This also implies that financial reporting should show whether current-year citizens received services but shifted part of the payment burden to future-year citizens; whether previously accumulated resources were used up in providing services to current-year citizens; or, conversely, whether current-year revenues were not only sufficient to pay for current-year services, but also increased accumulated resources.
- b. Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it should also demonstrate compliance with other finance-related legal or contractual requirements. (For some items it may be sufficient to demonstrate compliance by identifying items or instances of noncompliance.)
- c. Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity. This information, when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions. The information should be based on objective criteria to aid interperiod analysis within the entity and comparisons among similar entities. Information about physical resources (as discussed in paragraph 79b) should also assist in determining cost of services.

The paragraph 78 of Concepts Statement No. 1 "Objectives of Financial Reporting" states that "financial report should assist users in evaluating the operation results of the governmental entity for the year".

78. Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.
 - a. Financial reporting should provide information about sources and uses of financial resources. Financial reporting should account for all outflows by function and purpose, all inflows by source and type, and the extent to which inflows met outflows. Financial reporting should identify material nonrecurring financial transactions.
 - b. Financial reporting should provide information about how the governmental entity financed its activities and met its cash requirements.
 - c. Financial reporting should provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.

Paragraph 32 of Concepts Statement No. 1 "Objectives of Financial Reporting", states the Uses of Financial Reports by comparing actual financial results to assess results of operation but it does not mention providing forward looking information:

32. Financial reporting by state and local governments is used in making economic, social, and political decisions and in assessing accountability primarily by:
 - a. Comparing actual financial results with the legally adopted budget
 - b. Assessing financial condition and results of operations
 - c. Assisting in determining compliance with finance-related laws, rules, and regulations
 - d. Assisting in evaluating efficiency and effectiveness.

Paragraph 69 of Concepts Statement No. 1 "Objectives of Financial Reporting" discusses the limitations of financial reports and that users must understand these limitations:

69. Governmental financial reporting objectives are affected not only by the characteristics of the governmental environment and the needs of users, but also by limitations of the information that financial reporting can provide. Users must understand these limitations to assess how financial reports can satisfy their needs.

Chapter 1 also mentions some governmental entities that currently report fiscal sustainability information and also

mentions that the Federal government is required by FASB to report prospective information. I do not believe that because the Federal Government is required to report prospective information that this would correlate that States and Local Governments should also do this. The Federal Government operates in a different environment, does not have a balanced budget and can print money when they want. I am not sure that the federal government sets a good example for local governments to follow.

I would also like to know if the governments mentioned that are currently providing Fiscal Sustainability information would be as willing to report the same information in their CAFR. Are they also projecting revenues and expenditures and not having to adjust for the cash basis in providing cash inflows and cash outflows.

Chapter 2 of the "PV" attempts to create a definition of fiscal sustainability in order to validate the need for forward looking information. But upon researching the definition of fiscal sustainability it seems there is no consensus among economist as to the precise definition of fiscal sustainability and that it could be referred to as a political concept. Some economist refer to fiscal sustainability as the ratio of public debt to GDP, another that sustainability policies to be enacted and enforced, and another dealt with the funding of defined pensions and there were more varying definitions. So I do not believe there is a clear definition of fiscal sustainability. I do believe that "accountability", as mentioned in paragraph 76 of Concepts Statement No. 1 "Objectives of Financial Reporting" is the paramount objective of financial reporting with using the two essential components of "accountability" which are "fiscal accountability" and "operational accountability" as stated in paragraph 203 of GASB Statement No. 34 "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments".

Chapter 3 of the "PV" talks about the components of fiscal sustainability. I believe projecting revenues and expenditures/expenses as done in the budget process is the only necessary forward looking information that local governments need to provide. Cash inflows and outflows is providing projections on a cash basis which would require adjustments to go from modified accrual and full accrual to the cash basis. Projections should be based on revenues and expenditures/expenses using the measurement focus and basis of accounting for that fund type.

Chapter 4 mentions annual financial projections for a minimum of five years. I believe there should be a maximum of five years but the length would be determined by the local government and the environment they operate in and whether they have the capability and staffing available to provide projections. I also believe going out further than five year would be irrelevant and unreliable.

Chapter 5 mentions that for information to be effectively communicated it needs to possess six qualitative characteristics, two of which are timeliness and reliability. I believe the Qualitative Characteristics of timeliness and reliability will not be satisfied. Timeliness due to the current CAFR not being completed until six months after fiscal year end and Reliability due to the subjective nature of Projections. Doesn't the inclusion of a "Cautionary Notice" affirm the relevance and reliability of the Projections being reported. The relevance and reliability could also be affected by one item unexpectantly arising, as an example this past year our City almost and might still purchase a piece of land for a sizeable dollar amount. This one item would have made any past projections for cash inflows and cash outflows, financial obligations and annual debt service irrelevant. This affirms why the users of the financial reports should only use the current and past financial information to make their own financial projections based on Fact.

Chapter 5 mentions that financial projections and related narrative discussions should be required and communicated as RSI. The purpose of RSI is to provide information essential for an understanding of the specific historical data presented in the financial statements or notes, and not for subjective unreliable and untimely projections.

Paragraphs 43 through 45 below of Concepts Statement No. 3 "Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements" states the "Criteria for Presenting Information Items in RSI." Paragraph 44 specifically states that RSI does not include subjective assessments and predictions on

the reporting units future financial position and any information unrelated to the financial statements.

43. RSI has a clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains.

44. RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and notes to basic financial statements in context. However, RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit's future financial position, (b) predictions about the effects of future events on future financial position, or (c) information unrelated to the financial statements.

45. Items of information that meet the definition of and criteria for RSI are presented in that manner. Information presented in RSI is distinguished from supplementary information because the RSI is essential for placing basic financial statements in a context and is required to be presented with basic financial statements and notes.

I do believe as much information provided to the public in the form of revenue and expenditure/expense projections is important (but not based on cash inflows and cash outflows), but taking into account the cost/benefit relationship at this time of economic uncertainty for governments. I do believe this information is more of a Budgetary requirement and the public could be told where to obtain the current budget.

I could possibly see requiring this information for governments in a financial emergency situation such as two years of negative fund balance.

If the PV was to be implemented I would rather see the information in the Supplementary Information (SI) section or the Statistics section by providing revenue and expenditure/expense projections.

I would like to thank the GASB for their efforts in preparing the proposed Preliminary View and for the opportunity to respond, and to the assistance from the GASB staff. Feel free to contact me at (727) 942-5612 or rharring@ci.tarpon-springs.fl.us.

Sincerely,

A handwritten signature in blue ink, appearing to read 'R. Harring', with a long horizontal flourish extending to the right.

Ron Harring, CPFO, CGFO,
Assistant Finance Director

I wanted to talk about three topics; “Responding to GASB Pronouncements” as they are issued, “Financial Projections” as proposed by GASB, and the “GAAP Hierarchy and Concept Statements-what are they”.

Ron Harring-Assistant Finance Director, City of Tarpon Springs

Responding to GASB Pronouncements:

GASB (Government Accounting Standards Board) is the rule making body that sets GAAP (Generally Accepted Accounting Principles) for State and Local Governments. GASB is governed by a board consisting of seven board members, one being the chairman (a full-time position) and six part-time members.

The standard setting process begins when the Board identifies specific technical issues that may need to be examined. These technical issues are identified through public hearings, consulting with advisory councils such as GASAC (Governmental Accounting Standards Advisory Council) or input from individual constituents and organizations. If the Board decides to pursue an issue they will add it to the Board's official technical agenda as either a separate project or as an addition to an existing project.

Depending on the depth and/or complexity of an issue the Board may elect to issue either an ITC (Invitation to Comment) or a DM (Discussion Memorandum), the purpose of which is to solicit the comments of interested parties to ensure that all material ramifications of the issue under study have been considered. At this stage in due process, the Board begins to reach its own tentative conclusions on how to address the issue at hand.

These conclusions are then offered for public comment in the form of an Exposure Draft (ED). When a matter is particularly controversial or significant (such as Financial Projections), the Board may elect to issue a Preliminary View (PV) document for public comment before releasing an ED.

The GASB board encourages participation by all constituents and interested parties in the standard setting process. The Board will consider all relevant facts and viewpoints before arriving at a conclusion. I cannot implore enough the importance of responding to PV's and ED's as they are issued, especially with controversial issues such as Financial Projections.

To establish what PV's and ED's have been issued for public comments you can go to the GASB.ORG web-site and go to the tab labeled “Projects”. From there click on “Documents for Public Comment” and you will see current PV's and ED's that have been issued for public comment. Also, there is a tab for “Comment Letters”, where by topic, you can see how others have responded to an issue. Under “Projects” you can also see what GASB is working on “Research Projects” and their upcoming “Technical Plan” for current and future projects. Newsletters such as the GFOA and GASB also mention when

PV's and ED's have been issued for public comment. PV's and ED's usually have a comment period of two to three months.

The important thing is just to respond, it does not have to be a lengthy response, but it is important for the GASB Board to know how their constituents feel about an issue and whether there are any alternatives. During the comment period you can look at how others are responding on that particular issue by looking under "Comment Letters". Sometimes you will find that others may bring up some ideas you didn't think of and it may help in providing ideas on how to write a response.

Since I have mentioned Financial Projections, the comment period for the "PV" on Financial Projections has already passed, there were 171 letters in response to that "PV", I counted approximately 152 (89%) that were **not** in favor of it and 19 that were in favor of it or were non-committal. Some of the responses like number 152 was a combined response from Government Finance Officers Association (GFOA), International City/County Management Association, National Association of Counties, National League of Cities, and the US Conference of Mayors which responded in part "We object in the strongest possible terms to the GASB's proposal to mandate that state and local government financial statements be accompanied by financial projections in the form of required supplementary information (RSI). We believe that the proposed mandate is unnecessary, confusing, and beyond the legitimate scope of the board's jurisdiction."

In looking at the GASB technical agenda if the Board votes in favor of the "PV" on Financial Projections an Exposure Draft is currently scheduled to be issued in the first quarter of 2013. It is very important that we have as many responses as possible, GASB needs to know how we feel about this issue and the ramifications it will have on our audited financial statements and the amount of work it will involve.

Financial Projections:

As mentioned in the previous article, a "PV" (Preliminary View) was issued on "Economic Condition Reporting: Financial Projections" and the comment period ended March 16, 2012. The majority of the responses 152 (89%) out of 171 agreed that financial projections are important but they **should not** be a part of the audited financial statements.

In last quarters FGFOA newsletter Mark White wrote a great article summarizing the issues with the "PV" and the FGFOA's position that we are not in favor of it. What I would like to do is go into a little more detail on areas that GASB has used to validate this issue, where there seem to be some contradictions and inconsistencies with GASB Concept Statements, and other concerns and issues with the "PV".

The "PV" was divided into five chapters, and within each chapter were references to certain concept statements in validating the need for Financial Projections. I don't want to repeat in verbatim the whole statements but will highlight some main points.

Concept Statement No. 1, Objectives of Financial Reporting, paragraph 35:

GASB references paragraph 35 of Concept Statements No. 1 by describing the information needs of users, including forward-looking information with the following quote from paragraph 35, “Investors and creditors need information about available and likely future financial resources, actual and contingent liabilities, and the overall debt position of a government to evaluate the government’s ability to continue to provide resources for long-term debt service.” But they forgot to mention the last sentence of this paragraph which states that “Trend analysis helps investors and creditors project future revenues and predict possible allocation of those revenues.” Also, in paragraph 34 of Concept Statements No. 1 it mentions that “Financial reports are commonly used to assess a state or local governments financial condition” but for “current and previous years”. So to me what 34 and 35 are saying is:

By “Assessing an entity’s results of operations for current and previous years”, Investors and creditors use “results of operations for current and previous years” to look for trends and they (Investors and creditors) then use these trends to project future revenues and predict possible allocation of those revenues. In other words its best if they do their own Projections.

Concept Statement No. 1, Objectives of Financial Reporting, paragraph 79:

GASB references paragraph 79 of Concepts Statement No. 1 and misinterprets this section as validating the need for forward looking information. Wherein paragraphs 77 and 78 provide the basis for what should be in financial reports.

GASB references this sentence from paragraph 79 “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.” But, paragraph 77 states that “Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services” and paragraph 78 states that “Financial reporting should assist users in evaluating the operating results of the governmental entity for the year”.

In going through Concept Statements No. 1 and No. 3 I found some other paragraphs that describe what information should be in financial reports that I believe are relevant and worth mentioning but are not referenced in the “PV”.

Concept Statement No. 1, Objectives of Financial Reporting, paragraph 32:

Paragraph 32 states the “Uses of Financial Reports” in assessing accountability primarily by “comparing actual financial results” to assess “financial condition and results of operations” but it does not mention providing forward looking information.

Concept Statement No. 1, Objectives of Financial Reporting, paragraph 69:

Paragraph 69 of concept statement No. 1 discusses the “Limitations of Financial Reports” by stating:

“Governmental financial reporting objectives are affected not only by the characteristics of the governmental environment and the needs of users, but also by limitations of the information that financial reporting can provide. Users must understand these limitations to assess how financial reports can satisfy their needs.”

Concept Statement No. 3, Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements, paragraphs 43 through 45:

The “PV” mentions that financial projections and related narrative discussions should be required and communicated as RSI. But, paragraphs 43 and 45 of Concept Statement No. 3 state the actual purpose of RSI is to provide information essential for an understanding of the specific historical data presented in the basic financial statements or notes, and not for subjective unreliable and untimely projections. Paragraph 44 of concept statement No. 3 states “However, RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit’s future financial position, (b) predictions about the effects of future events on future financial position, or (c) information unrelated to the financial statements.”

The Federal Government does it so we should to:

The “PV” mentions that the Federal government is required by FASB to report prospective information. I do not believe that because the Federal Government is required to report prospective information that this would correlate that States and Local Governments should also do this. The Federal Government operates in a different environment, does not have a balanced budget and can print money when they want. I am not sure that the federal government sets a good example for local governments to follow.

Fiscal Sustainability – what is the definition:

The “PV” attempts to create a definition of fiscal sustainability in order to validate the need for forward looking information. But upon researching the definition of fiscal sustainability it seems there is no consensus among economist as to the precise definition of fiscal sustainability and that it could be referred to as a political concept. Some economist refer to fiscal sustainability as the ratio of public debt to GDP, another that sustainability policies to be enacted and enforced, and another dealt with the funding of defined pensions and there were more varying definitions. So I do not believe there is a clear definition of fiscal sustainability.

Timeliness and Reliability:

THE “PV” mentions that for information to be effectively communicated it needs to possess six qualitative characteristics, two of which are timeliness and reliability. I believe the qualitative characteristics of timeliness and reliability will not be satisfied. Timeliness due to CAFR’s not being completed until six months after fiscal year end and

Reliability due to the subjective nature of Projections. Doesn't the "PV"'s requirement for a "Cautionary Notice" affirm the relevance and reliability of the Projections being reported. The relevance and reliability could also be affected by one item unexpectedly arising, as an example, this past year our City almost and might still purchase a piece of land for a sizeable dollar amount. This one item would have made any past projections for cash inflows and cash outflows, financial obligations and annual debt service irrelevant.

Political Element and the subjective nature of the Projections:

There is the subjective nature of the required Projections of the "PV" and a political element. Will governments with limited time (the completion of the audit and CAFR as it currently stands) have the ability to fully produce projections and how reliable will they be? Will governments avoid reporting a deficiency of cash inflows as compared to cash outflows and adjust inflows and outflows accordingly so as to avoid a deficiency and not have their credit rating negatively affected. Would some governments want to report a deficiency in order to show the necessity for increased revenues and tax increases.

Not that I was excited about responding to this "PV" when it came out, but it did put me in a good frame of mind during one of the busiest times of the year. That being working on the annual financial report that this "PV" was going to affect. The amount of time and effort currently necessary to complete year end entries, work with auditors and compose the CAFR, which includes Financial Statements, Notes, MD&A, Letter of Transmittal and Statistics is already a daunting task. I cannot imagine the additional work necessary to fulfill the requirements of this "PV". If I had to make a "Projection", I estimate that producing the reports required by the "PV" will require at least an additional 40 to 60 hours of staff time and at least an additional 8 to 10 hours of time involved with our auditors as they inquire of our methodology used for our projections, comparisons of the information, and any other additional inquires. The example statements in the Appendix of the "PV" may not seem that involved but there would have to be a more voluminous spreadsheet detailing all the revenues and expenditures of all the accounts and of all the funds that accumulates the numbers necessary for these proposed statements. Would this time required to produce these reports as required by the "PV" have a negative affect on the CAFR by subverting time necessary to complete the CAFR as is currently required. I have trouble imagining how smaller governments will have the time and capability of providing the information required by the "PV".

My only hope is that GASB will listen to their constituents and Financial Projections will go away. But if it doesn't we need to have as many people respond to the "ED" that is scheduled to come out the first quarter of 2013.

GAAP Hierarchy and Concept Statements, What Are They?

I thought it might be important to go over the GAAP hierarchy for State and Local Governments and how Concept Statements fit into this hierarchy, especially since they are being mentioned extensively in the “PV” on Financial Projections as mentioned above and with the advent of Deferred Inflows and Deferred Outflows.

Before I go into the current GAAP hierarchy I should mention that GASB has just added a project to the technical agenda that will consider modifications to the hierarchy of GAAP. The project will reexamine the hierarchy levels to assess whether they warrant reconsideration or reconfiguration of certain aspects of the structure. Specifically, the GAAP hierarchy project will address a number of key issues, including the possible combination of some categories to provide fewer levels and potential elevation of AICPA pronouncements and GASB Technical Bulletins.

The current GAAP hierarchy for State and Local Governments can be summarized by the following levels:

Level 1 GAAP	All GASB Statements and Interpretations enjoy automatic Level 1 status to the extent that they have not been amended or superseded by subsequent pronouncements.
Level 2 GAAP	GASB Technical Bulletins issued by GASB staff, provided a majority of the Board members do not object to their issuance. Also AICPA Audit Guides and Statements of Position (SOP) that specifically apply to State and Local Governments and have been cleared for issuance by the GASB.
Level 3 GAAP	AICPA’s Accounting Standards Executive Committee is authorized to issue Practice Bulletins that specifically apply to State and Local Governments and have been cleared for issuance by the GASB. Also, if GASB was to establish an Emerging Issues Task Force this would be Level 3. To date, there has been no authoritative guidance that merits Level 3 GAAP.
Level 4 GAAP	GASB Implementation Guides issued by GASB staff in question and answer format. Also AICPA Audit Guides and Statements of Position (SOP) that specifically apply to State and Local Governments but have <i>not</i> been cleared for issuance by the GASB.
Other Sources	There are other sources of <i>guidance</i> on GAAP other than Levels 1 through 4 just mentioned. These include professional publications, textbooks, position papers of professional organizations, and FASB guidance that is <i>not authoritative</i> for governments. GASB’s Concept Statements are considered to be more authoritative than any other source of guidance on GAAP outside of the GAAP hierarchy.

Concept Statements are not “authoritative” in the hierarchy of generally accepted accounting principles (GAAP). In the current hierarchy, Concepts Statements are treated

as other accounting literature, ranking them below the four levels of authoritative GAAP. The reason for this treatment in the hierarchy is the belief that the Concepts Statements are primarily for the use and guidance of the Board in setting standards.

I was trying to think of how to define Concept Statements and I found this quote by GASB Chairman Robert H. Attmore in an article on Concept Statements from 2009, “I think of the conceptual framework as the foundation of fundamental premises (concepts) upon which sound and consistent accounting and financial reporting standards are built. The primary goal of GASB’s conceptual framework is to set the underlying philosophy and the boundaries for judgement that will guide GASB in resolving accounting and financial reporting issues brought before the Board. The conceptual framework is intended to encompass reporting objectives, a set of definitions and broad principles intended to guide the Board members as they deliberate how governments should account for and report on transactions and events”.

There have been five Concept Statements issued:

GASB Concepts Statement No. 1
Objectives of Financial Reporting
May 1987

GASB Concepts Statement No. 2
Service Efforts and Accomplishments Reporting
April 1994
Was amended in November 2008

GASB Concepts Statement No. 3
Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements
April 2005

GASB Concepts Statement No. 4
Elements of Financial Statements
June 2007

GASB Concepts Statement No. 5
Service Efforts and Accomplishments Reporting – an amendment of GASB Concepts Statement No. 2
November 2008

I believe GASB needs to stay true to their definition of Concept Statements and their purpose, as mentioned above, and come to the realization that Financial Projections do not have a place in the audited financial statements.