



## Standards Watch

### Forward-Looking Information: What It Is and Why It Matters

By: Robert H. Attmore, CGFM, CPA

**The views expressed in this article are those of the author only, not GASB. Official GASB positions are determined only after extensive due process and deliberations.**

The traditional focus of state and local government accounting and financial reporting has been on providing users of financial statements with historical information that presents a snapshot of a governmental entity's financial position as of a certain date, and a look back at results of operations for a specific period (usually one year). I will share my perspective on forward-looking information and how I believe this type of information may provide governmental financial report users with what they need to assess a government's current financial health as well as its ability to continue to meet commitments into the future.

To put this in context, the Governmental Accounting Standards Board (GASB) began deliberations in August on issues related to a government's fiscal sustainability as it relates to an economic condition reporting project. GASB's economic condition reporting project is about improving the communication of decision-useful information to financial report users about a governmental entity's financial position, fiscal capacity and service capacity to assist them in assessing the entity's overall economic condition.

GASB has tentatively decided that a relationship exists between economic condition and fiscal sustainability, with fiscal sustainability providing a forward-looking aspect of economic condition. GASB has tentatively defined fiscal sustainability (subject to due process input) as "a government's ability and willingness to generate inflows of resources necessary to honor cur-

rent service commitments and to meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits."

Forward-looking information in this context involves projections (not predictions) that are based on current facts. These projections do not represent certainties but rather rely, in part, on certain assumptions. While the ideas the board is addressing through this project may seem new or nontraditional to some, they have actually been around for quite some time. The National Council on Governmental Accounting, GASB's predecessor organization, stated in its Concepts Statement 1, *Objectives of Accounting and Financial Reporting for Governmental Units*, that one of the basic objectives of accounting and financial reporting for governmental units is, "To provide financial information useful for determining and forecasting the financial condition of the governmental unit and changes therein."

In addition, GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, states that "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 [by] ... providing information about the financial position and condition of a governmental entity [and] ... providing information about a governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year,

including information that can be used to assess the service potential of those resources." (paragraph 79) The Concepts Statement provides a solid basis for concluding that forward-looking information is, and traditionally has been, included within general purpose external financial reporting.

One of the concerns I have heard related to the work GASB is now doing regarding forward-looking information is that, ultimately, the board will require state and local governments to report it. Some fear this would essentially require reporting predictions of future events in comprehensive annual financial reports. Even if it were possible to do this, the argument goes, it is simply beyond the scope of traditional accounting and financial reporting. I certainly don't advocate reporting predictions of future events, but that does not preclude considering forward-looking information. Other standards setters have already done work related to the consideration of forward-looking information, including the Federal Accounting Standards Advisory Board, the International Public Sector Accounting Standards Board and the Financial Accounting Standards Board.

During research preceding GASB's current economic condition reporting project, financial report users told GASB staff that with respect to fiscal sustainability there is essential information that is not currently reported but that might be appropriate for GASB to consider. However, it is still early in the board's deliberative process, and GASB has not begun deliberations

regarding the disclosure of forward-looking information. In fact, it is fair to say that at this stage, a variety of different points of view and appetites for involvement in this regard are present on the board.

I believe that additional forward-looking information may be appropriate for inclusion in financial reports. The inclusion of this information could represent an important advance in providing users of governmental financial reports access to the information they may need to make informed decisions not just about how a government has performed recently, or historically, but about how—based on projections—they might expect it to perform going forward. It is important to note that financial statements already include certain types of forward-looking information (for example, information relating to pensions and other postemployment benefits, debt service, pollution remediation obligations and claims information).

It is also important to consider the dynamic nature of the governmental environment. As practices change and new innovations arise, a need for additional guidance often presents itself. It is important that GASB's guidance for financial reporting within the governmental environment results in the communication of information that is considered essential by users as they endeavor to obtain a clear, transparent and comprehensive snapshot of a government's financial health and its ability to meet its future commitments.

Recent reports from the U.S. Department of the Treasury and the Federal Reserve System's Board of Governors' chairman indicate that the federal government is currently on an unsustainable fiscal path. These reports raise legitimate questions about the associated risks to state and local governments, considering the interdependency among the various levels of government in our system of federalism. In that context, isn't it important for users of governmental financial information to have access to essential forward-looking information that equips them with the ability to make informed decisions about a state or local government's fiscal health? If users were to have access to such forward-looking information, both they and our elected representatives would be better able to make their own judgments about a government's financial health and potential policy changes that may be needed.

### Conclusion

Forward-looking information can be a vital factor to assist financial report users in better understanding what a government's current and past actions may lead to in the future. While this information cannot predict future events, based on the best information currently available, it can project what may happen and give an indication of the effect that current actions and policies may have going forward. Having the ability to evaluate forward-looking information would provide policymakers with useful information that could

better inform their decisions. At the same time, it may assist financial report users in making assessments about a range of issues related to a government's financial health in situations where information currently is simply not available. ■



*Robert H. Attmore, CGFM, CPA, a member of AGA's New York Capital Chapter, is chairman of the Governmental Accounting Standards Board.*