Letter of Comment No. 17 File Reference: 13-3PV Date Received: 2/17/12

## Memo

To: NSAA/GASB

From: Utah State Auditor's Office

Date: February 13, 2012

Subject: Project No. 13-3 Preliminary Views – Economic Condition Reporting:

**Financial Projections** 

We do not agree with the preliminary view of the board majority that these financial projections should be required supplementary information. Rather we agree with the first two paragraphs in the alternative view which state 1) that these financial projections are <u>not</u> essential for placing the basic financial statements and notes to the basic financial statements in an appropriate operational, economic, or historical context, and 2) that the financial projections do not meet the definition of RSI, which would "place the basic financial statements and notes in context," but rather they are "subjective assessments of the effects of reported information on the reporting unit's future financial position."

We also question the cost benefit of this information and feel that this RSI would go a long way in making financial reporting even less timely and therefore less useful.

We feel that the proposed projections do not provide an understanding of historic financial information but rather a projection or "forecast" of future cash flows, financial obligations and debt service. We do not agree that the information proposed meets the dictionary definition of a projection rather than a forecast. In particular, the requirement to include the debt service for debt that has not even been issued certainly would qualify as "foretelling what will happen or prophesy." GASB seems to think that because the debt has been authorized and is expected to be issued, it is no longer a prediction but reality. By that argument, simply authorizing an increase in sales revenue and intending to make it happen should certainly qualify as an increase in cash flow just because we want it to happen. Calling a forecast by a different name does not change what it is.

In addition, we do not believe the projections meet the qualitative characteristics described on page 23. Certainly the reliability of the projections will be very suspect and comparability would be nearly impossible.

However, we do not agree with the portion of the alternative view expressed in the 3<sup>rd</sup> paragraph, suggesting that some parts of the statistical section of a CAFR should be made RSI. Again, we do not feel this statistical information is essential for placing the basic financial statements and notes to the basic financial statements in an appropriate operational, economic, or historical context.

While we do not agree with the preliminary view that the projection information should be RSI, we do believe that all well managed entities rely on similar projections to ensure proper management. Therefore, we can see value in the voluntary disclosure of such information as SI.

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Thank you for allowing us the opportunity to respond to this document. If you have any questions about our response, please contact Joe Christensen, Deputy State Auditor, at 801-538-1354 or by e-mail at joechristensen@utah.gov.