

## LETTER OF COMMENT

Project No. 13-3PV  
*Economic Condition Reporting: Financial Projections*

February 21, 2012

Mr. David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
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Dear Mr. Bean,

Thank you for your time and consideration of these comments regarding the GASB's Preliminary Views on Project No. 13-3, *Economic Condition Reporting: Financial Projections*. Having had the honor of working on this project, I understand the amount of time and effort it required from both the Board and the staff. As such, I commend you all for your efforts. The quality of this PV and those before it are testaments to the GASB's understanding of the needs of users of governmental financial information and its willingness to challenge the status quo to better serve these users.

Below, please find my answers to the eight questions posed in the PV.

*1. The Board's preliminary view is that there are five components of information that are necessary to assist users in assessing a governmental entity's fiscal sustainability (Chapter 3, paragraph 2):*

- *Component 1—Projections of the total cash inflows and major individual cash inflows, in dollars and as a percentage of total cash inflows, with explanations of the known causes of fluctuations in cash inflows (Chapter 3, paragraphs 4–9)*
- *Component 2—Projections of the total cash outflows and major individual cash outflows, in dollars and as a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows (Chapter 3, paragraphs 10–14)*
- *Component 3—Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts, with explanations of the known causes of fluctuations in financial obligations (Chapter 3, paragraphs 15–20)*
- *Component 4—Projections of annual debt service payments (principal and interest) (Chapter 3, paragraphs 21–23)*
- *Component 5—Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies (Chapter 3, paragraphs 24–26).*

*Do you agree with this view? Why or why not?*

I strongly agree with the Board that the five components listed above are necessary to assist users in assessing a governmental entity's fiscal sustainability. Many stakeholders would benefit from

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this information, particularly constituents looking to relocate in their lifetime or even the near future. Research conducted by the U.S. Census Bureau shows that the U.S. population is characterized by high mobility.<sup>1</sup> I myself have moved twice in the past two years, four times over the past decade. Families looking to move to different cities or states would benefit from information on these five components of fiscal sustainability, as this information could help indicate relative levels of governmental services to be provided (e.g. funding to school systems) along with anticipated changes to tax rates and service fees.

I also agree with the Board that other information, such as information related to the need or demand for public services or the costs to maintain capital assets, exists that would aid users in assessing governments' fiscal sustainability, but that this information is not essential and should not be required due to cost-benefit considerations. Information that is costly today, however, may not be so in the not-too-distant future. Advances in technology and widespread use of the internet may lead to easier and less costly methods of collecting, analyzing, and reporting information on the demand for government-provided services and the costs to maintain capital assets, and as such merit reassessment for inclusion by the Board at that time.

*2. The Board's preliminary view is that financial projections should be (a) based on current policy, (b) informed by historical information, and (c) adjusted for known events and conditions that affect the projection periods. Current policy includes policy changes that have been formally adopted by the end of the reporting period but that will not be effective until future periods (Chapter 4, paragraphs 2–7). Do you agree with this view? Why or why not?*

I agree with the Board that financial projections should be based on current policy, informed by historical information, and adjusted for known events and conditions that affect the projection periods. However, I do not agree that "*financial projections ... are no more subjective than the estimates and assumptions currently required to be included in annual financial reports*" (Chapter 4, Paragraph 7). Projections of financial information contain multiple estimates and assumptions which both individually and together contain varying degrees of subjectivity. On an individual basis, estimates and assumptions pertaining to future periods are inherently more subjective than those pertaining to current and historical periods given the fact that, at a minimum, the economic and operational contexts of historical and current estimates and assumptions are known.

*3. The Board's preliminary view is that inflows and outflows should be projected on a cash basis of accounting, and financial obligations should be projected on an accrual basis of accounting (Chapter 4, paragraphs 8–12). Do you agree with this view? Why or why not?*

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<sup>1</sup> Ren, P. (November 2011). *Lifetime Mobility in the United States: 2010*. U.S. Census Bureau.  
<http://www.census.gov/prod/2011pubs/acsbr10-07.pdf>

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I agree with the Board's view that inflows and outflows should be projected on a cash basis and financial obligations should be projected on an accrual basis. Accordingly, I also agree with the Board's decision to not require the modified accrual basis of accounting for projecting financial information, as this may unintentionally exclude certain inflows and outflows and could also confuse less-experienced users of governmental financial information by incorporating three different bases of accounting.

*4. The Board's preliminary view is that the identification and development of assumptions for making financial projections should be guided by a principles-based approach. Such an approach would set forth principles that require assumptions to be based on relevant historical information, as well as events and conditions that have occurred and affect the projection periods. Furthermore, these assumptions should be (a) consistent with each other (where appropriate) and with the information used as the basis for the assumptions and (b) comprehensive by considering significant trends, events, and conditions (Chapter 4, paragraphs 13–16). Do you agree with this view? Why or why not?*

I agree with the Board that the identification and development of assumptions for making financial projections should be guided by a principles-based approach, as mentioned above and in the PV. A prescriptive approach that mandates specific assumptions to be used may unduly restrict governments' projection efforts given the heterogeneity of state and local governments across the U.S. Although, a principles-based approach seems most appropriate, I encourage GASB to provide comprehensive examples of assumptions that could be used when preparing such projections, such as those presented in Illustrations 5, 9, and 13 of the PV. These examples would aid preparers who have little to no experience projecting governmental financial information.

*5. The Board's preliminary view is that annual financial projections should be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting (Chapter 4, paragraphs 19–23). Do you agree with this view? Why or why not?*

I believe that governmental entities' financial projections should be made for a period of 3-5 years beyond the reporting period. Projections inherently will contain some level of subjectivity, regardless of the time horizon used. And generally, the usefulness of financial information diminishes with a reduction in its timeliness. However, using a period of five years or less would limit this subjectivity to a reasonable level without unduly sacrificing the usefulness of the forward-looking information. It would also be more in-line with political officials' terms in office, which may further enhance accountability for decisions impacting the long-term. A projection period of less than three years may not provide users with information relevant enough to justify the additional costs to prepare it.

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*6. The Board's preliminary view is that all of the components of fiscal sustainability information are essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context and therefore should be required and communicated as required supplementary information (Chapter 5, paragraphs 7–12). Do you agree with this view? Why or why not?*

I agree with the Board that all of the components of fiscal sustainability information are essential and should be reported in required supplementary information (RSI). If the information is not required, I do not believe the majority of governments will voluntarily choose to report it (or worse, may only report it when favorable results are expected). There is also the consideration of placing this information in a report separate from the CAFR. However, reporting fiscal sustainability information outside of the CAFR may weaken its relevance to current and historical information provided within the financial statements, notes, and MD&A. Reporting financial projections within the CAFR, in RSI, would reinforce the relationship between economic condition and fiscal sustainability, further placing each in an operational and economic context sufficient to enable users to assess a government's financial past, present, and future fiscal/service capacity.

*7. The Board's preliminary view is that all governmental entities should be required to report financial projections and related narrative discussions (Chapter 5, paragraphs 13 and 14). Do you agree with this view? Why or why not?*

I agree with the Board that all governmental entities should be required to report financial projections and narrative discussions, regardless of a government's size or type. Each government will face its own set of costs for collecting, preparing, analyzing and reporting forward-looking information., but I do not believe these costs will outweigh the benefits of reporting the information to users.

*8. Do you believe that a phase-in period for implementing the reporting requirements for financial projections and related narrative discussions would be appropriate (for example, requiring governmental entities over certain dollar thresholds to implement first)? If so, what phase-in criteria would you recommend (Chapter 5, paragraph 14)?*

A phase-in approach to implementing the reporting requirements mentioned in the PV is both reasonable and appropriate. Given that this information will require preparation methodologies that markedly differ from current preparation methodologies for historical financial information, a phase-in approach similar to that used when GASB Statement 34 was issued (over the course of three years, with governments reporting revenues over \$100 million implementing first) would give smaller, more resource-limited governmental entities time to prepare.

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Lastly, regarding the cautionary notice that would precede reported financial projections and narratives (Chapter 5, Paragraph 28), I strongly agree that such a notice should be included with (before) the projected information. This is similar to the disclaimer for-profit enterprises use when reporting forward-looking information in conjunction with the SEC's "safe harbor" provisions. However, I believe that the last sentence of the first paragraph should be moved to the beginning of the cautionary notice so that the first sentence reads "*It is important to note that projections of cash inflows, cash outflows, and accrued financial obligations based on current policy do not represent a forecast or a prediction of the most likely outcome.*" This would further reinforce to users, at the onset, that such information is subject to inherent uncertainties and that the rest of the cautionary notice, as well as the projected information itself, should be read within this context.

In closing, I would like to emphasize the importance of forward-looking governmental financial information both as a constituent and future business owner. From a constituent's standpoint, my use of public services and payment of future state and local taxes will be factors in potential relocation decisions. Governments projecting stable inflows and outflows of resources with reasonable tax rates and levels of service provision would be weighted more favorably in my decision. As an aspiring business owner, state and local governments may someday comprise a part of my customer base as well. The five components of fiscal sustainability information listed above would be key factors in my decisions of which city/state to start, operate, and solicit my business in (e.g. Boston vs. San Francisco vs. Des Moines). Governments demonstrating strong fiscal sustainability will be more apt to utilize my products and/or services, and thus be weighted more favorably in my decision. Although I realize financial projections have inherent limitations, at the very least they establish a foundation on which stakeholders can assess the fiscal sustainability of their governments.

Again, thank you for your time and consideration of these comments. I look forward to following this project in the coming months.

Respectfully Yours,

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