

Letter of Comment No. 104 105 West Capitol Avenueile Reference: 13-3PV

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Director of Research and Technical Activities Project No. 13-3 Governmental Accounting Standards Board Norwalk, CT 06856-5116

Thank you for the opportunity to provide comments regarding the GASB's preliminary views document, *Economic Condition Reporting: Financial Projections*, which would include various projections and discussions as required supplementary information (RSI).

#### Cash inflows and outflows

We agree that cash projections serve an important purpose as part of planning. However, we are very concerned with the proposed presentation of projected cash inflows and outflows in audited financial statements and do not support that method of communication. The relevance of cash projections as elemental to an historical document is questionable. We fail to grasp the concept that the inclusion of projections is somehow "essential for placing basic financial statements and notes to basic financial statements in an operational or economic context..." Audited financial statements are viewed by the public as firm numbers to be relied upon. Any connection of projected cash inflows and outflows with such a document will only invite confusion, at best.

Discussion of those things that could impact future inflows and outflows has merit; presenting specific detailed information does not. The stated concern that "current annual financial reports do not provide adequate information to users regarding the financial stress facing some governmental entities due to deteriorating financial conditions" could be easily addressed by expanding the information in the management's discussion and analysis (MD&A) or the notes to the basic financial statements. The MD&A already has a requirement for a section that includes "a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations" and the notes section already has a requirement for subsequent event disclosure. A new or expanded narrative description of material anticipated changes in inflows and outflows would convey the same intention as the proposal without users taking the information out of context or misinterpreting the information. In addition, it would not as dramatically increase the preparers' workload.

If the Board chooses to continue with the proposal as drafted, it needs to recognize the concept of reporting inflows and outflows as major and nonmajor is confusing. If the purpose of including projections with the basic financial statements is to "provide users with the information needed to



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assess the current and future ...", then the projections should be reported using the same categories as the basic financial statements.

# Obligations and debt service

As stated in the proposal, note disclosures are already required for existing debt service payments. That note disclosure could be redefined to also include the other categories of future financial obligations.

One area of concern, however, relates to the inclusion of five years of projections for unfunded actuarial accrued liabilities for pensions and other post employment benefits. While it is understood these are expensive obligations, actuaries would be needed to calculate the projections, which would increase costs for governments and could affect reporting timeliness.

# Narrative discussion of interdependencies

The proposed narrative discussion regarding intergovernmental service interdependencies could easily be a note to the basic financial statements, similar to the current related parties disclosure.

## Excluded information

The Board specifically decided against the inclusion of "information related to the need or demand for public services." However, the demand for service would seem to define the very essence of sustainability. Yet the Board concluded "the benefits to users of providing this information do not justify the additional costs associated with these potential projections."

The same reasoning applies to the exclusion of assessing the condition of infrastructure and capital assets. These are most surely among the largest obligations that will have to be met, yet the Board is excluding them when considering future obligations. It is questionable what value will be added, and alarming what conclusions will be drawn, if forward-looking needs are not considered.

#### Other concerns

The proposed cautionary notice does little to communicate how projection information should be useful or not useful. The slight difference in meaning between projections, forecasts, and predictions does not alleviate the reality that many users will perceive the data as being "available and measurable," rather than as the estimates they are. In addition, the warning would be needed on every page to avoid being overlooked when viewing the document or when only a page is reproduced.

The explanation examples provided are very repetitive. Illustration 13 on page 57 alone uses the same sentence about "the state's actual increase for the past three years" four times. Referring to the suggestions provided above, a narrative discussion, versus specific numbers, included in the MD&A could be much more concise and such discussion would be logically placed in a management discussion and analysis.

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This proposal will increase the workload of non-financial reporting units. Every government has their own unique revenue and expenditure forecasting processes and formats. In addition, investors and creditors already have specific means to obtain financial projections. This proposal will add to the variations or reporting currently required, not replace them.

Significantly, implementation of this proposal in its present form will undeniably lengthen the time it takes not only to prepare the financials, but also for the audit process. Deadlines for audit completion are very strict and are already challenging.

## **Summary**

We feel strongly that narrative discussions located in appropriate sections of the financial report will convey the intent of this proposal without creating unnecessary confusion and workload.

We appreciate the GASB's efforts to improve financial reporting for governmental entities; however, we have concerns that some of the changes appear to be made without complete coordination and forethought to understandability and comparability. This becomes evident when it is difficult to explain the benefit of these revisions to the users of our financial statements. We do support making changes to financial reporting when a clear benefit can be determined.

Sincerely,

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Financial Services Director

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