



March 8, 2012

Director of Research and Technical Activities
Project No. 13-3
Government Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Comment on Preliminary Views Project No. 13-3: *Economic Condition Reporting: Financial Projections*

Dear Director,

Please accept the following response from our appointed Accounting Standards Review Committee (the committee) as the official comment from the Oregon Municipal Finance Officers Association (OMFOA). We are responding to Governmental Accounting Standards Board's (GASB) request for written comments to Preliminary Views Project No. 13-3: *Economic Condition Reporting: Financial Projections*.

Overall. The committee feels that projections that aid in assessing a governmental entity's fiscal sustainability would be beneficial, but that these projections do not belong in the audited financial statements. We are concerned that projections published in the audited financial statements may be misleading and cause users to have false expectations about the future performance of the government.

The committee is concerned that these projections could have negative impacts on the governmental entity because many users would neither read nor understand the cautionary notice and may rely on these projections as facts. This could adversely affect the entity during bargaining negotiations, election years, debt issuance, and various other situations. Many governmental entities have bargaining agreements, which could be adversely affected in negotiation years. Also, there may be political pressure from those charged with governance to omit unfavorable information in election years.

The committee's consensus is that this potential standard will be burdensome for governmental entities. The benefits to the users of the audited financial statement do not justify the additional costs associated with compiling and reporting these projections since the information that is necessary to calculate these projections is not currently available for most governmental entities. Further, this potential standard will delay the issuance of financial statements when users are requesting more timely reports.

The committee understands the benefit of having guidance on projections in financial statements. In general, our recommendation is to have guidance like service efforts and accomplishments (SEA) reporting for voluntarily reporting projections. The committee agrees with the Alternative View in Chapter 6. Below are the committee's responses to the Questions in the Preliminary Views.

Question 1. Committee members agree with the components of fiscal sustainability, with the following comments and concerns:

Component 1 – Some members are concerned about the variability in grant revenue for small governmental entities. Grant revenue may be difficult to predict from year to year.

Component 4 – The committee understands the usefulness of projections of annual debt service payments, but this information is already included in the audited financial statements with the exception of the authorized but unissued debt. Authorized but not yet issued debt should be included in a subsequent event footnote. We understand that current standards do not require disclosure of the magnitude of the next five year's payments for authorized but unissued debt but, users of the financial statements should understand that annual debt service payments may be increased. Repeating the annual debt service payments in the projections section is redundant.

Component 5 – The committee believes that *GASB 61* takes care of some of the assumptions and effects of fiscal interdependencies that exist between various governmental entities.

Question 2. Committee members agree with the preliminary view 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. In general, committee members believe that this will take away some speculation inherent in the projections because they will be based on current policies not potential policies.

Question 3. Committee members agree that inflows and outflows should be projected on the cash basis of accounting, and financial obligations should be projected on the accrual basis of accounting. Committee members believe that it should be easier to project financial obligation information on the accrual basis of accounting and everything else on the cash basis of accounting.

Question 4. The committee agrees that the financial projections should be guided by a principles-based approach. In general, it would clearly be difficult to set forth guidelines for every situation. The committee is concerned that although a principles-based approach is easier for reporting purposes, comparability between governmental entities will be impossible as the assumptions are subjective and would not be consistently applied across governmental entities.

Question 5. In general, committee members agree that a minimum five years of projections beyond the reporting period is adequate. The committee is concerned that Phase III entities (see potential definition in Question 8) do not have the resources to prepare these projections on an annual basis. Therefore, the committee thinks Phase III entities should be exempt from the potential standard entirely or, at most required to report only three years of projections.

Question 6. Committee members disagree with the preliminary view that the components of fiscal sustainability should be required and communicated as required supplementary information. As stated above, the committee members believe projections should not be required in the audited financial statements.

If this potential standard for projections is going to be required in the audited financial statements, we believe it should be reported in a separate section similar to the introductory and statistical sections. A separate section would eliminate the additional costs associated with having the entity's independent auditor responsible for these projections.

Question 7. Committee members disagree with the preliminary view that all governmental entities should be required to report financial projections and related narrative discussions. As stated above, the committee members believe projections and the related narrative should not be required or presented in

the audited financial statements. If the potential standard is going forward, committee members have three alternative views for your consideration:

1. Make the reporting of projections voluntary like the service efforts and accomplishments (SEA) reporting or,
2. Phase III entities (see potential definition in Question 8) should be exempt from the potential standard or,
3. Phase III entities should only be required to present a minimum three years of projections.

Most Phase III entities do not have the resources to implement the potential standard.

Question 8. The committee believes a phase-in period would make implementing the reporting requirements for projections easier on governmental entities. We believe the thresholds for GASB 34 were appropriate and should be continued for purposes of this potential standard:

- Phase I – Governments with total annual revenues (excluding extraordinary items) of \$100 million or more.
- Phase II – Governments with at least \$10 million but less than \$100 million in revenues.
- Phase III – Governments with less than \$10 million in revenues.

Committee members also believe that a new base year should be selected, as some entities did not exist in 1999 and some have merged with other entities.

Summary. The Accounting Standards Review Committee of the Oregon Municipal Finance Officers Association agrees with the alternative view in Chapter 6. We believe that the benefits of this potential standard do not justify the additional costs of staff resources, potential increased audit fees, and the potential adverse affect on the timeliness of the audited financial statements. Please consider making these projections reporting voluntary if they have to be made at all.

We appreciate the opportunity to provide input on the Preliminary Views.

Sincerely,

Jeff White
Oregon Municipal Finance Officer Association President