

From: Penny Grossaint
Sent: Monday, March 12, 2012 1:24 PM
To: Director - GASB
Subject: Director of Research and Technical Activities, Project No. 13-3

Questions for Respondents

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 agree with the five components, but feel that beginning fund balances should also be considered and shown, to allow the reader to know the total extent of resources available.**

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? **Yes, except that many times policies are in place or approved that have not been "formally adopted", although they should be. I guess this might encourage the formal adoption of these policies however.**

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? **I agree.**

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.**

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 disagree – three years is difficult enough to come close to projecting, five years is too long a time to forecast these days! There is just too much uncertainty and it could be very misleading.**

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 wholeheartedly disagree - these projections belong with budget documents, NOT in audited financial statements as RSI! We should maintain the historical aspect of the financial statements being audited and make the budget documents the forward looking documents. Auditors would have a hard time with projections in the RSI and it would tie up the audit process more than it does now, in terms of time. Smaller entities might have a harder time than we already do engaging auditors with this additional requirement, not to mention the fact that auditors now compile our basic financial statements. We would need assistance with the complexity of compiling these projections. Who would we be able to get to assist with this – obviously it would be a conflict for the auditors to prepare our projections. Also, this would be very political, as Councils would want to project positive numbers. Right now, they're not involved in the financial statement audit process, except for findings and reporting at the end. I could see this tying up the audit further, as Council would want to micromanage the projections (something they cannot do with historical information – it is what it is). However, if the projections were a required part of the budget documents, Council would have to approve it following the process (which also engages the public). So, you could be sure the projections were more realistic, and accepted across the board by the constituency.**

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? **Yes, I agree, but there should be some leeway for smaller entities to be able to meet the requirements without having to spend a lot of personnel time and at a lot of additional cost of having to hire consultants to come in and prepare the projections.**

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)? **Yes, I think the same type phase-in period that was implemented with GASB 34 would be favorable, as it is easier for larger entities to implement first as they already have a lot of the information and that allows time for changes to be made before it impacts smaller entities (as the impact is always greater on the smaller entities).**

Thank you for allowing me to comment!

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