



STATE OF IDAHO
OFFICE OF THE STATE CONTROLLER
DONNA M. JONES

March 12, 2012

Mr. David Bean
Director or Research
Governmental Accounting Standards Board
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of Idaho Office of the State Controller, thank you for the opportunity to comment on the Governmental Accounting Standards Board's Preliminary Views document, *Economic Condition Reporting: Financial Projections*.

We believe GASB should discontinue this project. We think budgetary and other documents would be better vehicles to provide financial projection information. Publishing financial projections in the audited financial statements could give these projections unwarranted assurance. We believe the volatility of the economic and political environments do not provide the kind of certainty to make reliable five-year projections. Including projections in the financial statements could be a conflict where a government has given some other officer of the government the responsibility for promulgating such projections. We are also concerned about the effect preparing projections would have on the timeliness of financial statements. We have received requests for more timely financial statements, but we have never had a request for projections.

We do not agree that financial projections should be included in the financial statements of state and local governments, and we have attached our comments to the questions posed by GASB with our specific observation related to each question.

We appreciate the opportunity to comment on this statement. Should you have any questions or need clarification, please contact Sherrill Geddes of the Idaho State Controllers office at 208-332-8814 or sgeddes@sco.idaho.gov.

Sincerely,

A handwritten signature in cursive script that reads "Merideth Hackney".

Merideth Hackney, Administrator
Division of Statewide Accounting
Office of the State Controller

Office of Idaho State Controller's Response to Preliminary Views Document Economic Condition Reporting: Financial Projections

1. Do you agree with the Board's preliminary view 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—We question the cost/benefit of making cash inflow projections for 5 years when budgets are usually adopted for one year by officials elected for a two-year term, in changeable economic, social, and political climates. Although it sounds simple to project inflows, many transfers are based on a distribution formula, further complicating the projection. Unforeseen and uncontrollable changes at a major employer can quickly change the socio-economic and political environment of a state, county, or city. (Chapter 3, paragraphs 4–9)*
 - *Component 2— We question the cost/benefit of making cash outflow projections for 5 years when expenditure budgets are usually adopted for one year by officials elected for a two-year term, in changeable economic, social, and political climates. Legislative bodies can and do modify legislation passed by previous legislative bodies. (Chapter 3, paragraphs 10–14)*
 - *Component 3—We question the cost/benefit of making financial obligation payment projections. Amending statistical section requirements to include other obligations in addition to debt would provide the 10-year trend information for users to formulate their own projections. Disclosure is already required for long-term commitments and subsequent events for issuance of debt. (Chapter 3, paragraphs 15–20)*
 - *Component 4—We question the cost/benefit of providing projections of annual debt service payments (principal and interest) in addition to the disclosure already required for all long-term liabilities. Current disclosure already includes debt-service payments to maturity (not just five years). (Chapter 3, paragraphs 21–23)*
 - *Component 5—We agree that a discussion of intergovernmental service interdependencies would be appropriate. However, we suggest that a narrative discussion of the implications of major government interdependencies could be subjective. Subjective information should not be included in required supplementary information. (Chapter 3, paragraphs 24–26)*

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?

Response: We disagree that budgets adopted on an annual basis by officials elected to a two-year term provide sufficient known events and conditions to prepare reliable five-year projections. Legislative bodies can and do modify legislation passed by previous legislative bodies. Modifications of subsequent projections could undermine the usefulness and credibility of the projections.

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?

Response: We disagree with this view. The statistical section is presented using the accrual or modified accrual basis of accounting. A disconnect could occur when users compare cash based inflows and outflows with the statistical section. Cash basis inflows and outflows are already available in budget documents and the budgetary reconciliations. The CAFR could contain a reference of where to obtain the future year's budget.

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?

Response: We believe official and published assumptions and projections should be made by someone with the appropriate professional training and skill for making projections, (i.e., economists). We question the cost/benefit of hiring an economist or alternatively, being able to obtain timely projections from economists. Any principles-based approach should provide some measure of comparability between similar entities. Selection of assumptions could be subjective and manipulated, leading to less comparability between similar entities. Chapter 4, paragraph 3, footnote 2 provides little distinction between a forecast, a prediction, and a projection.

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?

Response: We disagree that budgets adopted on an annual basis by officials elected to a two-year term provide sufficient known events and conditions to prepare a reliable five-year projection for external reporting. We believe this requirement would have a direct and measureable impact on timing, an important aspect of the usefulness of financial reporting.

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?

Response: We disagree that forward-looking financial information is essential to the financial information currently presented in a CAFR as of a specific date. We do not believe that we should project fiscal sustainability in an environment of annual budgets approved by officials elected to a two-year term. Financial reporting primarily focuses on the past and should not change its scope to incorporate financial projections using professional judgment about what may or may not happen in the future. Our auditors have expressed concern about being able to audit projections, which would have a direct negative effect on the timeliness of issuing the CAFR. The SEC and other users are looking for more timely statements.

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?

Response: We disagree with the necessity of reporting financial projections and related narrative discussions within the CAFR for the following reasons:

- Of all the questions and requests that we receive regarding the CAFR, we have never received a request for projections. Most users that contact us are foremost concerned with timeliness and then with where to find specific information in this both broad and detailed document. There is a very good chance we would end up having to explain and justify the projections.*
- Information about economic conditions can fluctuate drastically and rapidly. While preparing the 2007 CAFR, state economists from two different agencies were predicting a rosy future in July. The economic picture was much different when the October forecasts were published. If we had used the July forecasts for the transmittal letter, our information would have been misleading. Waiting until November for the October economic forecasts will slow down publication, thus conflicting with user's expressed desire for more timely financial information. Less timely documents are less relevant documents.*
- Until budgets are prepared 5 years in advance, any projections are likely to be highly subjective and prone to change. Changing projections could undermine the credibility of the projections and the entire CAFR, making it a useless document.*

- *We disagree that it would be **essential** for placing basic financial statements and notes to basic financial statements in an appropriate operational or economic context. We consider projections at the most to be **useful** for placing basic financial statements and notes to basic financial statements in an appropriate operational or economic context. Thus projections should be reported as supplementary information, if at all. (Chapter 5, paragraph 8). Further, Concept Statement 3, paragraph 44, provides guidance that RSI should not include subjective assessments of the effects of reported information on the reporting unit's future financial position.*
- *Existing statistical tables, amended to require inclusion of other obligations in addition to debt, would provide 10-year trend information for users to formulate their own projections. User projections, informed by personal knowledge of the economy and political climate, would permit users to draw their own conclusions about the path of sustainability.*
- *The CAFR could refer to the availability of detailed economic forecasts, budget documents, and other useful information that would permit users to make their own conclusions.*

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)?

Response: We do not agree that all governmental entities should be required to report financial projections and related narrative discussions so the phase-in criteria would be irrelevant to us.

Other Comments:

1. *Throughout the Board's preliminary views and in particular in chapter 2, paragraph 4, the Board uses the word 'willingness' in defining economic condition. Willingness is a difficult concept to measure in an environment of changing elected officials within a changing economy.*
 - a. *The concept of willingness overlooks the fundamental authority of a government to impose taxes. Recently, an Idaho county attempted to declare bankruptcy. The court reminded them that they had the authority raise revenue to meet their legal obligation, even if they were unwilling.*
 - b. *Conversely, just because the government has enough revenue to improve the delivery of public services does not mean that will happen. Elected leaders might choose reducing taxes over improving services.*
2. *Chapter 1, paragraphs 8 – 10 are unclear whether the declaration of a conclusion concerning fiscal sustainability will be required as part of the financial projection. Does SFFAS 36 provide guidance about which office is responsible for making this conclusion for the federal government? Should each governmental entity have the right to decide which official or department is responsible and qualified to declare fiscal sustainability?*
3. *Chapter 3, paragraph 4 makes the statement that current policy is defined as the present course of action formally adopted and pursued by a government entity . . . We are unclear what **pursued** is intended to convey in addition to the **formally adopted** context.*
4. *Estimating the useful life of a capital asset (for depreciation purposes) is quite different from making financial projections for the government as a whole. Insurance and depreciation tables are widely available to assist accountants in estimating the useful lives of specific-types of capital assets. We are not aware of any tables to provide auditable data for the projections being proposed.*
5. *We disagree with the view that projections are appropriate and consistent with the objective of assisting users in their decision making about the future. Users have trend information for use in making their own projections about the future using their knowledge of the environment. We believe projections could be highly subjective. Such subjectivity should not be introduced, especially in the required supplementary information*