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Director of Research and Technical Inquiries, Project No. 13-3  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Director:

We are writing this letter to take the opportunity to comment on the Governmental Accounting Standards Board's (GASB) preliminary views on Economic Condition Reporting: Financial Projections. Please note that the following comments are based on our professional opinion, and not that of our employer.

The intentions behind this proposal are understandable. However, the resulting impacts of implementing this proposal are a different matter. There are a number of issues that were not touched upon in the preliminary view that we feel put in doubt the practicability and value of this proposal.

1. The preliminary view does not discuss the role of governmental auditors in reviewing the financial projection and the underlying assumptions. If the financial projection is to be audited as part of the government's financial statements, its inclusion will expand the scope of the audit and increase the attestation risk taken on by the auditor.
2. If the financial projection is to be subject to limited procedures or simply provided as supplementary information, it is unclear as to the role the projection will play in influencing the auditor's opinion on the financial statements. For example, in a situation where the financial projection demonstrates a going concern for the government in future years, could an auditor still be justified in providing a standard unqualified audit opinion on the financial statements? Is it reasonable to expect that an auditor would include going concern language in their audit opinion, potentially jeopardizing a government's credit rating, solely based on an unaudited financial projection included as supplementary information?
3. The two primary means in which governments communicate financial information to its constituents, bond holders, etc. are through the presentation of its budget and publishing of its comprehensive annual financial report (CAFR).

As identified on page three of the preliminary view statement, many governments report fiscal sustainability information in reports other than their CAFR. For example,

governments that participate in the Governmental Finance Officer Association (GFOA) budget awards program are required to identify in their budget, long-range financial plans that extend beyond the budget year and describe their impacts upon current budget and future years<sup>1</sup>. According to the GFOA's website over 1,400 counties, cities, school districts, special districts, and other entities participated in their fiscal year 2009 budget awards program.

With many governments currently including forward looking financial information within their budget proposals and other reports it begs the question, is requiring this information to be included in a government's CAFR necessary?

It is our opinion that forward looking financial information, such as a financial projection, is best suited to be included in a government's budget proposal. The budget proposal is a forward looking document used specifically to assist policy makers and provide information to the public on how best to use current resources and plan for future expenditures. Requiring similar information to be included in a government's CAFR blurs the lines between financial reporting and the budgeting process.

Consider that two financial projections, one included in a government's CAFR the other in their budget proposal. Both projections could be significantly different simply because they were prepared by different departments using different assumptions, criteria, and methodologies. One projection based on criteria outlined in the preliminary view. The other projection tailored specifically to meet the needs of a government's policy makers and constituents. Would such a situation improve clarity regarding a government's financial health or could it cast doubt and add confusion as to why there are two sets of numbers explaining the same thing? We would argue that it would be the latter.

4. The preliminary review states that the inclusion of financial projections in the financial statements would enable users to address issues regarding economic condition, and fiscal and service capacity. We would make the argument that this information is already available to financial statement users within a government's budget proposal. Requiring governments to disclose information in their CAFR that is already available in their budget proposal is redundant.
5. The preliminary review does not address the limited ability of smaller governments to prepare financial projections. Such a requirement could put undue hardship on governments that lack the resources, sophistication, or in-house expertise to provide a multiyear financial projection. The preliminary view's "one size fits all" approach does not seem reasonable.
6. The inclusion of financial projections in a government's CAFR could have unanticipated consequences. How would such information be used by credit rating agencies in determining a government's credit rating? How would such information be used by bargaining groups? Could the simple inclusion or exclusion of future Cost of Living

Allowances for a specific bargaining group be seen as a commitment or as an issue of contention for future contract negotiations?

Thank you for allowing us the opportunity to comment on the preliminary views on Economic Condition Reporting: Financial Projections.

References:

1. Explanation of Criteria (for budgets that have fiscal years that begin on or after January 1, 2011), Long Range Financial Plans #F7, Government Finance Officers Association, <http://www.gfoa.org/downloads/BudgetCriteriaExplanationsFY2011.pdf>

Sincerely,

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