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

Dear Mr. Bean:

Re: Preliminary Views of Economic Condition Reporting: Financial Projections

The University of Utah is pleased to have the opportunity to review the above preliminary views document, and to comment on the issues identified therein. We hope that our comments are helpful in the GASB's deliberations of the proposed change. We have included the original questions and our responses, in the text that follows. Our general view is that while there is no doubt some measure of merit in proscribing standards for financial projections, this arena is also fraught with much risk and uncertainty. These types of disclosures may generate some confusion and incorrect inferences for the reader, and certain political implications for the issuer that may prove counterproductive and unnecessarily problematic. We would caution GASB to proceed carefully into this arena, inasmuch as requiring financial projections has the potential to cause more problems that it proposes to solve.

Questions Posed in the PV and Responses from the University of Utah:

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
 - 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
 - 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
 - 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

- Component 4—Projections of annual debt service payments (principal and interest)
- Component 5—Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies.

Do you agree with this view? Why or why not?

University Response:

Component 2:

It may be more valuable to list the outflows as percentage of total cash inflows, because this will allow the reader to better make the connection of how reliant such an outflow stream is on the cash inflows.

Component 4:

No additional disclosure needed as it is already disclosed in financial notes.

Component 5:

There should be a discussion if these dependencies are transacted in an arm's length transaction, and if the entity could have those services provided by a third party, and how any such costs might differ from what they currently are. With no guidelines on what should be disclosed other than "professional judgment", it leaves open much potential for variances between entities on how they approach this requirement.

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.

Do you agree with this view? Why or why not?

University Response:

The problem is that these projections may require the entity to prepare two forecasts:

- 1) One to conform to this standard, and
- 2) One to present what they actually believe (budget)

These two scenarios could be very different and the time taken to prepare these different scenarios may be costly and will most likely not be useful in running the entity. It is very likely that many entities do not prepare more than a one-year budget in their current planning process. This projection analysis will be adding a lot more time, which will take away time from the mission of the entity. These projections will add costs to the entity from a personnel standpoint and from an audit cost perspective with little or no added benefit.

Many of the revenues are very political in nature, such as state funding to a university; and the requirement to project future cash inflows may create a political situation that is detrimental to the entity. The legislature may not like the idea of publicly making projections of what its support is going to be to the state university. Publishing projections may also put a public entity

at a disadvantage in its marketing against private institutions. Potential students may infer certain increases in tuition which may cause them to make decisions based on projections that are not factual.

Too many revenues and expenses are subject to high volatility. How does one project such items into the future? In many cases, an average will be taken, and that may not be a good reflection of reality, and will not reflect the volatility in the projections. Many things can change within five years, including sources of revenues and expenses. It seems to us that an entity should be given the ability to discuss what alternatives it might be pursuing to increase future cash flows - with a disclaimer. New sources of revenue that are in process and under development may be hard to project. This can leave some real inconsistency because there may be no basis for such projections.

In the proposed "Cautionary Notice" – meant to precede the financial projections and narrative discussions proposed in the Preliminary Views document, the following statements are made:

However, it is important to note that projections of cash inflows, cash outflows, and accrued financial obligations based on current policy do not represent a forecast or a prediction of the most likely outcome.

Financial projections may be based upon assumptions regarding changes in social, economic, and demographic events and conditions that are inherently subject to uncertainties. Therefore, readers are cautioned that actual future financial results of [government name] may be significantly different from the financial projections that are reported.

If the entity is stating that the projections do not represent the likely outcome, then in reality they are stating that this is totally unreliable information. Therefore, does it make sense to even prepare it?

The Preliminary Views document describes the reliability of forward-looking information as follows:

Forward-looking information is reliable if it is verifiable, objective, comprehensive, free from bias, and faithfully represents a governmental entity's fiscal sustainability. The reliability of forward-looking information does not imply precision or certainty.

If reliability does not imply precision or certainty, then it brings into question if the information is really useful, and how much reliance can be placed on the information. What are the guidelines for projecting into the future based on past results? In the examples provided in the draft document, cash flows are based on several averages over the past. However, some revenues are based on the past 3 years, 5 years, 10 years, etc. and the pattern is not consistent. While it may make sense that different cash flows should be looked at in different circumstances, it also opens up the possibility of using a timeframe that gives the entity the best results.

In the example of non-major inflows in Illustration 5, the Preliminary Views document uses only percentages to reflect impact of a policy change to a cash inflow source. This requires the reader to go back to the statement and try to determine the effect of this change in dollars; and since it is a non-major inflow, the reader may not have any idea what this represents. It seems dollar amounts should be included to better clarify the effect to the reader.

In Illustration 13, the document makes the following statement:

Cash outflows for unemployment compensation are expected, over the next 4 years (20X2–20X5), to return to historical levels, which approximate 50 percent of current-year cash outflows, and then increase by 3 percent in 20X6.

What is this based on? This does not seem to be following the guidelines in this draft; yet we think it is probably a very likely scenario. However, this is very confusing because it seems to be mixing approaches.

Additional audit costs will be incurred and due to “professional judgment” assumptions, it may be difficult for the auditors to get a sufficient comfort level to sign off on this. They certainly will not be able to “audit” this and it will require an additional note in their opinion - adding additional verbiage which may confuse readers.

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.

Do you agree with this view? Why or why not?

University Response:

By looking at this on a cash basis, projections would not take into account resources that have been accumulated beforehand to meet upcoming obligations, thus distorting the future projections. Many items such as grants could provide resources over multiple years. In addition, sale of investments may be an important source of cash inflows to offset outflows. How should an entity project investment sales, since such sales may only be required on an “as needed basis”? Would it not be misleading to project negative cash flows when the resources are available, simply by cashing in an investment? There should be some discussion to address such accumulations, especially if the projections show shortfalls.

The entity should also be able to discuss opportunities that it is looking at to address shortfalls that it may have in the future. This may be similar to a going concern analysis in FASB statements. It is important that the reader can compare several past years of actual results to the projections. For that purpose, if the method used for projections is different from actual, it makes it more difficult to do such comparisons.

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.

Do you agree with this view? Why or why not?

University Response:

We would certainly agree that any identification and development of assumptions used for this purpose should be based on sound principles, such as the ones outlined in the Preliminary Views document. Such assumptions should be disclosed in a general sense, without requiring detailed descriptions of the mechanics involved.

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.

Do you agree with this view? Why or why not?

University Response:

We think three years would be more reasonable.

It needs to be understood that so much can change in five years. It may not be known what capital projects will be needed at that point or what the environment may be for funding of those projects through bonds or through other mechanisms.

Capital projects can be very political in nature for obtaining funding. These Preliminary Views may require earlier-than-wanted disclosure of such projects and may be detrimental to the funding of such projects.

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.

Do you agree with this view? Why or why not?

University Response:

Although we agree the components of fiscal sustainability information are essential and well-considered, we don't think they arise to the level of required supplementary information. With all the uncertainty surrounding projections of this sort, and so little confidence in the numbers, especially five years into the future, we see no compelling argument for making these "required". Rather, we would support making these disclosures voluntary for a period of time – similar to the approach the GASB took with Service Efforts & Accomplishments.

7. The Board's preliminary view is that all governmental entities should be required to report financial projections and related narrative discussions.

Do you agree with this view? Why or why not?

University Response:

We would encourage GASB to consider another approach to informing the reader of the entity's financial sustainability, rather than requiring financial projections and the related narrative. A simple attestation by management, declaring that, a) its current financial plan is sustainable; b) it foresees no structural budget deficits that cannot be funded with available discretionary funds; and c) it now funds its pension and retiree obligations (if applicable) using prudent actuarial principles and practices. This could even be part of the already-existing RSI – Management's Discussion & Analysis. We see a high cost/low benefit scenario in producing the myriad financial schedules contemplated in this Preliminary Views document. We think a simpler, cleaner, less involved solution to the problem the Board is trying to address is merited here – and we think the attestation statement mentioned herein is that solution.

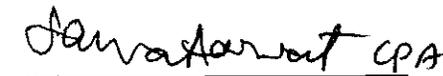
8. Do you believe that a phase-in period for implementing the reporting requirements for financial projections and related narrative discussions would be appropriate (for example, requiring governmental entities over certain dollar thresholds to implement first)? If so, what phase-in criteria would you recommend?

University Response:

If this is adopted, it will require significant time to develop an approach to do such projections. In addition, this may be overwhelming to smaller entities. A phase-in period would be highly recommended for not only smaller entities, but an adoption for all entities should take into account the need to develop such procedures in the first place.

Again, we appreciate the opportunity to provide input to the GASB. Should you have questions regarding the University of Utah or our response, please contact either of us at (801) 581-5077.

Sincerely,



Laura Howat, CPA
Controller/Director of Financial Management



Jeffrey J. West, CPA, MBA
Associate Vice President for Financial and Business Services