

From: Litwin, Laurie
Sent: Thursday, March 15, 2012 12:17 PM
To: Director - GASB
Subject: Director of Research and Technical Activities, Project No. 13-3

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Dear Sir/Madam, I have included comments to the GASB Projections PV. I apologize that they may be incomplete and informal. I am the single person who prepares the year-end reporting and financial statements for my entity, and that is my top priority at this time. I do believe this to be an important enough issue, however, to have included my comments that I did prepare in green below:

(a) useful in assessing fiscal sustainability; (b) a faithful representation of fiscal sustainability; (c) quantifiable, if applicable; (d) not overly burdensome to governmental entities to develop, measure, report, and analyze; and (e) relevant to both general purpose and special-purpose governmental entities.

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? **No**

Why or why not?

❖ **Components 1 & 2: if cash projections are based on current known causes, those causes should already be being discussed in the budget document, MD&A and/or notes to the Financial Statements, and with internal management discussion.**

- ❖ *“ability to maintain or improve the delivery of public services” This sounds as if the GASB is expecting local governments to expand. Guess what - we’re not, we are contracting, based on our local Board’s knowledge of current and anticipated fiscal conditions.*

- ❖ **Components 3& 4:** *“would include future annual principal and interest payments of those bond obligations that have been authorized and not yet issued but expected to be issued during the projection period. Further, the principal amount of debt obligations that were authorized but unissued as of the end of the reporting period would be included in the projections of financial obligations if that debt was expected to be issued during the projection period.” How many entities actually have these? Are you requiring projections of 100% of entities, to cover the 2% that have authorized but unissued obligations?*
 - *We’re not even considering issuing debt for years to come.*
 - *We have no unfunded Pensions or OPEB.*
 - *Other than authorized but unissued, entities should already cover future obligations in their Notes to FS.*

- ❖ **Component 5:** *we already discuss this to a certain extent in our budget document and public information issued/posted on website.*
 - *This is rolling, ever-changing information and should not be committed to one annual document, or if it is, should be current information and maybe one year only, and s/b in the budget document.*

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? **Yes, I think so, do not have time to fully consider**
Why or why not?

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 think this makes sense, do not have time to fully consider**

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? **Yes, but I don't think it's realistic in providing consistent projections**

Why or why not? **I think that this would be very difficult to maintain. Do you use your best beliefs, or do you go with your sources' projections (ie: school funding from States, property tax projections from County Assessor?) who decides what's relevant? how do you reconcile inconsistencies between local government projections (ie: why is my projection so much more conservative than the neighboring city's?) How many people have to agree on those principles and assumptions? What if half of your Board does not agree with them? How many Finance people are going to change their beliefs and assumptions in order to keep their jobs?**

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? **No**

Why or why not? **Too long - what would our projections have shown in 2005? Certainly not the financial condition that we were in, in 2010-2011.**

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? **NO!**

Why or why not? **I believe that the Financial Statements and Notes should be factual information that can be audited. How are auditors supposed to audit projections? How much more will our audit cost due to this? I do not believe that subjective information should be presented as if it was real. I believe that any projections should be presented and discussed in the Budget document, and/or presented to the specific user, in order to address particular informational needs.**

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? **No**

Why or why not?

- ❖ **As stated in #1 above, I believe that the majority of entities do not have Financial Statement users who will use this information, or if it is used, it may be taken as more realistic than it is.**
- ❖ **Colorado has over 4,000 local Governmental entities, many of which are run completely by volunteers. In many rural organizations it is nearly impossible to get volunteers who have the skills to prepare a budget and financial statements, let alone preparing and adopting formal assumptions and developing ongoing projections. Volunteers often rotate every year or two, which would result in very ineffective projections, considering subjectivity of projections.**
- ❖ **Rotation of Elected Officials will also affect projections, dependent upon the political agendas of the current officials.**
- ❖ **During these economic times, most Finance offices are less than fully staffed. Finance offices will tend to be the last offices that re-fill positions, as "front-line" external services departments will be the first to be re-staffed. We are over-working our staff in accomplishing what we need to do now, and cannot accommodate the additional costs (in internal time, audit time and other related costs) to fulfill this requirement.**

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 skipped

I believe that projections should be a "Best Practices" issue, or, if it is required, that it truly belongs in the budgeting arena, not in a document that's purpose should be to report factual, auditable results of an entity.

In closing, I would like to say that Teller County made a policy about 15 years ago, of not budgeting for "just in case" items. We do hold contingency funds in general, however do not indulge in individual "worst case" budgeting. For example if a copy machine and a truck break down, priorities must be made on what we can afford to fix from our contingency funds. It seems to me that the GASB is considering a "just in case" reporting attitude - that all entities should include everything possible in our Financial Statements, "just in case" someone might need that information. In these days of being short of funds and short of staff, I would request that the GASB consider that if some information is needed in addition to what is currently provided in the Financial Statements, that perhaps the user might just have to request it, on an "as needed", priority basis.

Thank you for your consideration of my comments.

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"Resolve to make at least one person happy every day, and then in ten years you may have made three thousand, six hundred and fifty persons happy, or brightened a small town by your contribution to the fund of general enjoyment" Sydney Smith