

Questions for Respondents

Director of Research and Technical Activities

Project No. 13-3

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?

No. The Boards view is that there are five components of fiscal sustainability. Upon researching the definition of fiscal sustainability it seems there is no consensus among economist as to the precise definition of fiscal sustainability and that it could be referred to as a political concept. Some economist refer to fiscal sustainability as the ratio of public debt to GDP, another that sustainability policies to be enacted and enforced, and another dealt with the funding of defined pensions and there were more varying definitions. So I do not believe I can answer this question in this context when there is not a clear definition of fiscal sustainability. I do believe that "accountability", as mentioned in paragraph 76 of Concepts Statement No. 1 "Objectives of Financial Reporting" is the paramount objective of financial reporting with using the two essential components of "accountability" which are "fiscal accountability" and "operational accountability" as stated in paragraph 203 of GASB Statement No. 34 "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments".

The "PV" refers to paragraph 35 of Concepts Statement No. 1 "Objectives of Financial Reporting" as validating why States and Local Governments should provide projections. But I believe they are taking this paragraph in the wrong context.

I first want to mention Paragraph 34 of Concepts Statement No. 1 "Objectives of Financial Reporting" which states that:

"Financial reports are commonly used to assess a state or local governments financial condition, that is, its financial position and its ability to continue to provide services and

meet its obligations as they come due. Assessing an entity's results of operations for current and previous years provides each user group with information that is useful in a variety of ways."

I underlined current and previous years above from paragraph 34.

Paragraph 35 of Concepts Statement No. 1 "Objectives of Financial Reporting" then states:

"Investors and creditors need information about available and likely future financial resources, actual and contingent liabilities, and the overall debt position of a government to evaluate the government's ability to continue to provide resources for long-term debt service. They review operating results and cash flow data (both currently and over time) to look for trends that may indicate strengths and weaknesses in the ability of the government to repay debt. Trend analysis helps investors and creditors project future revenues and predict possible allocation of those revenues."

The "PV" does not mention the last sentence of paragraph 35 about trend analysis. I believe paragraph 35 is stating that based on paragraph 34 by "Assessing an entity's results of operations for current and previous years", Investors and creditors use "results of operations for current and previous years" to look for trends and they (investors and creditors) then use these trends to project future revenues and predict possible allocation of those revenues."

In summary:

I believe that "accountability", as mentioned in paragraph 76 of Concepts Statement No. 1 "Objectives of Financial Reporting" is the paramount objective of financial reporting with using the two essential components of "accountability" which are "fiscal accountability" and "operational accountability" as stated in paragraph 203 of GASB Statement No. 34 "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments". And using the results of operations for current and previous years" (as mentioned in Paragraph 34 of Concepts Statement No. 1 "Objectives of Financial Reporting") allows Investors and creditors (as mentioned in paragraph 35 of Concepts Statement No. 1 "Objectives of Financial Reporting") to use "results of operations for current and previous years" to look for trends and they then use these trends to project future revenues and predict possible allocation of those revenues."

I believe users are currently being provided exactly what they need to make their own projections.

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. I do agree with the premise that financial projections are based on current policy, using historical information and adjusted for known events. But when used in the Budget Process for the projection of revenues and expenditures/expenses.

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?

No. I believe projections should be based on revenues and expenditures/expenses and based on the measurement focus and basis of accounting of that fund type.

4. The Boards 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 appropriated) 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?

Yes. This question seems to be an extenuation of question 2 further defining the criteria and methodology necessary for the particular revenue and/or expenditure/expense being projected.

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?

No. I believe there should be a maximum of five years and even that could be too long but the length would be determined by the local government and the environment they operate in and whether they have the capability and staffing available to provide projections. I also believe going out further than five year would be irrelevant and unreliable.

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 the 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?

No. The purpose of RSI is to provide information essential for an understanding of the specific historical data presented in the financial statements and notes.

Paragraphs 43 through 45 below of Concepts Statement No. 3 "Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements" state the "Criteria for Presenting Information Items in RSI." Paragraph 44 specifically states that RSI does not include subjective assessments and predictions on the reporting units future financial position and any information unrelated to the financial statements.

43." RSI has a clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains."

44. "RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and

notes to basic financial statements in context. However, RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit's future financial position, (b) predictions about the effects of future events on future financial position, or (c) information unrelated to the financial statements."

45. "Items of information that meet the definition of and criteria for RSI are presented in that manner. Information presented in RSI is distinguished from supplementary information because the RSI is essential for placing basic financial statements in a context and is required to be presented with basic financial statements and notes."

There is no clear definition of "Fiscal Sustainability" as I mention in my answer above to question No 1.

I believe that "accountability", as mentioned in paragraph 76 of Concepts Statement No. 1 "Objectives of Financial Reporting" is the paramount objective of financial reporting with using the two essential components of "accountability" which are "fiscal accountability" and "operational accountability" as stated in paragraph 203 of GASB Statement No. 34 "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments". And using the results of operations for current and previous years" (as mentioned in Paragraph 34 of Concepts Statement No. 1 "Objectives of Financial Reporting") allows Investors and creditors (as mentioned in paragraph 35 of Concepts Statement No. 1 "Objectives of Financial Reporting") to use "results of operations for current and previous years" to look for trends and investors and creditors then use these trends to project future revenues and predict possible allocation of those revenues."

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?

No, it should not be mandatory in the since that is being proposed by this "PV". States and Local Governments, as part of the Budget process, are already projecting and planning for the subsequent year the revenues and expenditures/expenses as required by state statute.

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)?

No, because there should not be a mandatory requirement for governmental entities to provide financial projections and it should not be part of the financial report.

I am glad that the "PV" came out at this time as we are in the middle of completing our audit and our CAFR. The amount of time and effort currently necessary to complete year end entries, work with auditors and compose the CAFR, which includes Financial Statements, Notes, MD&A, Letter of Transmittal and Statistics is already a daunting task. We have a September 30, fiscal year end and I cannot imagine having to also put together the requirements of the "PV" at this time. It is March 7, (five months since our fiscal year end) and we still do not have our final

audited statements. If I had to make a "Projection" I estimate that producing the reports required by the PV will require at least an additional 40 hours of staff time and at least an additional 8 hours of time involved with our auditors as they ask about our methodology, comparisons of information and any other additional inquires. The example of the statements in the Appendix of the "PV" may not seem that involved but there would have to be a more voluminous spreadsheet detailing all the revenues and expenditures of all the accounts and of all the funds that accumulates the numbers necessary for these proposed statements. Would this time required to produce these reports as required by the "PV" have a negative affect on the CAFR by subverting time necessary to complete the CAFR as is currently required. I have trouble imagining how smaller governments will have the time and capability of providing the information required by the "PV".

If Financial projections are mandatory they should only be required of governmental entities that are deemed to be in a financial emergency and should be in the Supplementary Information Section.

I also will be responding with a letter next week,

Ron Harring
Assistant Finance Director
City of Tarpon Springs, Florida

Phone (727) 942-5612
rharring@ctsfl.us

March 15, 2012

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

Via email: director@gasb.org

Dear Sir:

On behalf of the City of Tarpon Springs, Florida we are pleased to respond to the Government Accounting Standard Board's (GASB) Invitation to Comment on the exposure draft preliminary views, *Economic Condition Reporting: Financial Projections* (the "PV").

"GASB: Fact and/or Part Fiction"

I first want to say that I have always supported GASB in the accounting changes over the years and have made an effort to respond to ED's and PV's as they are introduced. The only GASB pronouncements that I have not agreed with are SEA and OPEB (Implicit Rate Subsidy). As I was reading this "PV" I kept thinking of how it reminded me of SEA and how GASB is straying beyond the purpose of GASB and should not set standards for Fiscal Sustainability Reporting. The Comprehensive Annual Financial Report (CAFR) has always represented "Fact" with actual verified audited numbers, but what I fear with this "PV" is that now the one report that is based on actual "Fact" is now going to be blemished with the introduction of subjective, unreliable and untimely projections based on a concept called Fiscal Sustainability Reporting "Part Fiction", and that is why I mention above "GASB: Fact and/or Part Fiction".

I am glad that the "PV" came out at this time, as we are in the middle of completing our audit and our CAFR. The amount of time and effort currently necessary to complete year end entries, work with auditors and compose the CAFR, which includes Financial Statements, Notes, MD&A, Letter of Transmittal and Statistics is already a daunting task. We have a September 30, fiscal year end and I can not imagine having to also put together the requirements of the "PV" at this time. It is March 15, (five and one half months since our fiscal year end) and we still do not have our final audited statements. If I had to make a "Projection", I estimate that producing the reports required by the "PV" will require at least an additional 40 hours of staff time and at least an additional 8 hours of time involved with our auditors. The example of the statements in the Appendix of the "PV" may not seem that involved but there would have to be a more voluminous spreadsheet detailing all the revenues and expenditures of all the accounts and of all the funds that accumulates the numbers necessary for these proposed statements. Would this time required to produce these reports as required by the "PV" have a negative affect on the CAFR by subverting time necessary to complete the CAFR as is currently required. I have trouble imagining how smaller governments will have the time and capability of providing the information required by the "PV".

There is the subjective nature of the required Projections of the "PV" and a political element. Will governments with limited time (the completion of the audit and CAFR as it currently stands) have the ability to fully produce projections and how reliable will they be? Will governments avoid a deficiency of cash inflows as compared to cash outflows and

adjust inflows and outflows accordingly so as to avoid a deficiency and not have their credit rating negatively affected. Would some governments want to show a deficiency in order to show the necessity for increased revenues and tax increases.

Chapter 1 Objectives and Background of the "PV"

Chapter 1 states that research participants responded that forward looking information as presented in the survey would be beneficial. But I believe when a survey such as this is asking "if more is better" then it would illicit a positive response.

Chapter 1 states that the "PV" refers to paragraph 35 of Concepts Statement No. 1 "Objectives of Financial Reporting" as validating why States and Local Governments should provide forward looking information.

But I believe they are taking this paragraph in the wrong context.

Paragraph 34 of Concepts Statement No. 1 "Objectives of Financial Reporting" states that:

"Financial reports are commonly used to assess a state or local governments financial condition, that is, its financial position and its ability to continue to provide services and meet its obligations as they come due. Assessing an entity's results of operations for current and previous years provides each user group with information that is useful in a variety of ways."

Paragraph 35 of Concepts Statement No. 1 "Objectives of Financial Reporting" then states:

"Investors and creditors need information about available and likely future financial resources, actual and contingent liabilities, and the overall debt position of a government to evaluate the government's ability to continue to provide resources for long-term debt service. They review operating results and cash flow data (both currently and over time) to look for trends that may indicate strengths and weaknesses in the ability of the government to repay debt. Trend analysis helps investors and creditors project future revenues and predict possible allocation of those revenues."

The PV does not mention the last sentence of paragraph 35 about trend analysis. I believe paragraph 35 is saying that based on paragraph 34 by "Assessing an entity's results of operations for current and previous years", Investors and creditors use "results of operations for current and previous years" to look for trends and they then use these trends to project future revenues and predict possible allocation of those revenues.

Chapter 1 then refers to paragraph 79 of Concepts Statement No. 1 "Objectives of Financial Reporting" and misinterprets this section as validating the need for forward looking information. Wherein paragraphs 77 and 78 provide the basis for what should be in financial reports.

Paragraph 77 of Concepts Statement No. 1 "Objectives of Financial Reporting" states that financial reporting should provide information on current year information by stating:

77. Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.

a. Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services. This also implies that financial reporting should show whether current-year citizens received services but shifted part of the payment burden to future-year citizens; whether previously accumulated resources were used up in providing services to current-year citizens; or, conversely, whether current-year revenues were not only sufficient to pay for current-year services, but also increased accumulated resources.

- b. Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it should also demonstrate compliance with other finance-related legal or contractual requirements. (For some items it may be sufficient to demonstrate compliance by identifying items or instances of noncompliance.)
- c. Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity. This information, when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions. The information should be based on objective criteria to aid interperiod analysis within the entity and comparisons among similar entities. Information about physical resources (as discussed in paragraph 79b) should also assist in determining cost of services.

The paragraph 78 of Concepts Statement No. 1 "Objectives of Financial Reporting" states that "financial report should assist users in evaluating the operation results of the governmental entity for the year".

- 78. Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.
 - a. Financial reporting should provide information about sources and uses of financial resources. Financial reporting should account for all outflows by function and purpose, all inflows by source and type, and the extent to which inflows met outflows. Financial reporting should identify material nonrecurring financial transactions.
 - b. Financial reporting should provide information about how the governmental entity financed its activities and met its cash requirements.
 - c. Financial reporting should provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.

Paragraph 32 of Concepts Statement No. 1 "Objectives of Financial Reporting", states the Uses of Financial Reports by comparing actual financial results to assess results of operation but it does not mention providing forward looking information:

- 32. Financial reporting by state and local governments is used in making economic, social, and political decisions and in assessing accountability primarily by:
 - a. Comparing actual financial results with the legally adopted budget
 - b. Assessing financial condition and results of operations
 - c. Assisting in determining compliance with finance-related laws, rules, and regulations
 - d. Assisting in evaluating efficiency and effectiveness.

Paragraph 69 of Concepts Statement No. 1 "Objectives of Financial Reporting" discusses the limitations of financial reports and that users must understand these limitations:

- 69. Governmental financial reporting objectives are affected not only by the characteristics of the governmental environment and the needs of users, but also by limitations of the information that financial reporting can provide. Users must understand these limitations to assess how financial reports can satisfy their needs.

Chapter 1 also mentions some governmental entities that currently report fiscal sustainability information and also mentions that the Federal government is required by FASB to report prospective information. I do not believe that because the Federal Government is required to report prospective information that this would correlate that States and Local Governments should also do this. The Federal Government operates in a different environment, does not have a balanced budget and can print money when they want. I am not sure that the federal government sets a good example for local governments to follow.

I would also like to know if the governments mentioned that are currently providing Fiscal Sustainability information would be as willing to report the same information in their CAFR. Are they also projecting revenues and expenditures and not having to adjust for the cash basis in providing cash inflows and cash outflows.

Chapter 2 of the "PV" attempts to create a definition of fiscal sustainability in order to validate the need for forward looking information. But upon researching the definition of fiscal sustainability it seems there is no consensus among economist as to the precise definition of fiscal sustainability and that it could be referred to as a political concept. Some economist refer to fiscal sustainability as the ratio of public debt to GDP, another that sustainability policies to be enacted and enforced, and another dealt with the funding of defined pensions and there were more varying definitions. So I do not believe there is a clear definition of fiscal sustainability. I do believe that "accountability", as mentioned in paragraph 76 of Concepts Statement No. 1 "Objectives of Financial Reporting" is the paramount objective of financial reporting with using the two essential components of "accountability" which are "fiscal accountability" and "operational accountability" as stated in paragraph 203 of GASB Statement No. 34 "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments".

Chapter 3 of the "PV" talks about the components of fiscal sustainability. I believe projecting revenues and expenditures/expenses as done in the budget process is the only necessary forward looking information that local governments need to provide. Cash inflows and outflows is providing projections on a cash basis which would require adjustments to go from modified accrual and full accrual to the cash basis. Projections should be based on revenues and expenditures/expenses using the measurement focus and basis of accounting for that fund type.

Chapter 4 mentions annual financial projections for a minimum of five years. I believe there should be a maximum of five years but the length would be determined by the local government and the environment they operate in and whether they have the capability and staffing available to provide projections. I also believe going out further than five year would be irrelevant and unreliable.

Chapter 5 mentions that for information to be effectively communicated it needs to possess six qualitative characteristics, two of which are timeliness and reliability. I believe the Qualitative Characteristics of timeliness and reliability will not be satisfied. Timeliness due to the current CAFR not being completed until six months after fiscal year end and Reliability due to the subjective nature of Projections. Doesn't the inclusion of a "Cautionary Notice" affirm the relevance and reliability of the Projections being reported. The relevance and reliability could also be affected by one item unexpectedly arising, as an example this past year our City almost and might still purchase a piece of land for a sizeable dollar amount. This one item would have made any past projections for cash inflows and cash outflows, financial obligations and annual debt service irrelevant. This affirms why the users of the financial reports should only use the current and past financial information to make their own financial projections based on Fact.

Chapter 5 mentions that financial projections and related narrative discussions should be required and communicated as RSI. The purpose of RSI is to provide information essential for an understanding of the specific historical data presented in the financial statements or notes, and not for subjective unreliable and untimely projections.

Paragraphs 43 through 45 below of Concepts Statement No. 3 "Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements" states the "Criteria for Presenting Information Items in RSI." Paragraph 44 specifically states that RSI does not include subjective assessments and predictions on the reporting units future financial position and any information unrelated to the financial statements.

43. RSI has a clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains.

44. RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and notes to basic financial

statements in context. However, RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit's future financial position, (b) predictions about the effects of future events on future financial position, or (c) information unrelated to the financial statements. 45. Items of information that meet the definition of and criteria for RSI are presented in that manner. Information presented in RSI is distinguished from supplementary information because the RSI is essential for placing basic financial statements in a context and is required to be presented with basic financial statements and notes.

I do believe as much information provided to the public in the form of revenue and expenditure/expense projections is important (but not based on cash inflows and cash outflows), but taking into account the cost/benefit relationship at this time of economic uncertainty for governments. I do believe this information is more of a Budgetary requirement and the public could be told where to obtain the current budget.

I could possibly see requiring this information for governments in a financial emergency situation such as two years of negative fund balance.

If the PV was to be implemented I would rather see the information in the Supplementary Information (SI) section or the Statistics section by providing revenue and expenditure/expense projections.

I would like to thank the GASB for their efforts in preparing the proposed Preliminary View and for the opportunity to respond, and to the assistance from the GASB staff. Feel free to contact me at (727) 942-5612 or rharring@ci.tarpon-springs.fl.us.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Harring". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ron Harring, CPFO, CGFO,
Assistant Finance Director