



State of Utah

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Department of Administrative Services

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Division of Finance

John C. Reidhead, CPA
Director

March 16, 2012

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

Dear Director of Research and Technical Activities:

On behalf of the State of Utah, State Division of Finance, I am pleased to provide responses to the preliminary views of the Governmental Accounting Standards Board on major issues related to *Economic Condition Reporting: Financial Projections*. We generally agree with the Board’s approach and reasoning and understand the importance of making financial projections available to those interested in assessing the economic condition and fiscal sustainability of a governmental entity. However, we have concerns with including these projections within the basic financial statements. We have addressed those concerns below by answering the 8 questions for respondents.

Below are our responses to those questions:

<p>Question 1</p>	<p>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):</p> <ul style="list-style-type: none"> • Component 1—Projections of the total cash inflows and major individuals 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 fluctuation in financial obligations (Chapter 3, paragraphs 15—20)
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	<ul style="list-style-type: none"> • 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) <p>Do you agree with this view? Why or why not?</p>
<p>Response – Question 1</p>	<p><i>We disagree with including financial projections within the basic financial statements that are historical in nature. We understand that these five components may assist users in assessing a governmental entity’s fiscal sustainability. However, components 1, 2, and 3 are more of a function of budgeting and forecasting, and would require additional budgeting, economic, and possibly actuarial resources outside those of accounting and financial reporting. We believe projections will be politically influenced regardless of the standards. History speaks with certainty; projections include optimistic crystal ball gazing.</i></p> <p><i>Some of these components are already adequately addressed in the footnotes to the financial statements, such as debt cash projections presented through the retirement of bonded debt. Additional information is also provided in the State’s Bond Continuing Disclosure document.</i></p> <p><i>We also do not agree with component 4. The nature of major intergovernmental service interdependencies is no different than service interdependencies with nongovernmental entities, in that the economy in general will dictate the level of that dependency.</i></p> <p><i>In addition, we have concerns with the significant time this would add to the preparation of the financial statements, specifically when there is pressure from our financial statement users to provide more timely financial information.</i></p>
<p>Question 2</p>	<p>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?</p>
<p>Response – Question 2</p>	<p><i>We disagree with including projections within the basic financial statements. However, if projections were required we agree that those projections should be based on current policy, historical information, and adjusted for known events and conditions.</i></p>
<p>Question 3</p>	<p>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?</p>
<p>Response – Question 3</p>	<p><i>We disagree with this view. Using both cash basis of accounting and accrual basis would add additional complexity, an inordinate amount of time and cost, and delay in issuing the statements. We believe it would confuse and add little value to users.</i></p>

Question 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 – Question 4	<i>If presented, we agree with a principle-based approach.</i>
Question 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 – Question 5	<i>We disagree. Budget forecasts of one to two years have value in planning for revenues and expenditures and are fairly predictable since the legislative cycle is biennial - and the legislature determines revenue and spending. However, the future is volatile, and unknown local, national, and world economies and political climates can drastically change making projections beyond one or two years very unpredictable.</i> <i>Five years or more for total financial obligations and major individual financial obligations is reasonable but we believe major obligations are adequately reported or can be further addressed with a narrative and not through projected financial forecasted statements.</i>
Question 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 – Question 6	<i>We disagree that all components of fiscal sustainability information are essential and that it should be included as required supplementary information. We agree with the alternative view that the purpose of RSI is to provide information essential for an understanding of specific historical data presented in the financial statements or notes.</i>
Question 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- Question 7	<i>We disagree. Projections may assist users in assessing the economic condition and fiscal sustainability of any governmental entity, regardless of the size of that entity. However, providing these projections would add an inordinate amount of complexity and cost that smaller governmental entities would find difficult to implement.</i>
Question 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 – Question 8	<i>No, we do not believe that there should be a phase-in period. Regardless of the size of the governmental entity, all governmental entities will be facing some type of burden or burdens of implementing this standard, whether it is the need for additional resources or dealing with more extensive or complex projections. We recommend a</i>

	<i>significant amount of time to implement or simplify the requirement. For example, maybe a narrative approach to discussing economic condition and fiscal sustainability of a governmental entity with references to existing areas within the financial statements would help users with their assessment of that entity.</i>
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We appreciate the opportunity to share our ideas and concerns about the GASB's due process documents. Should you have any questions concerning our comments, please feel free to contact me at mhandy@utah.gov or 801-538-1678.

Sincerely,

Marcie Handy

Marcie Handy, CPA
Assistant Comptroller