

March 16, 2012

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

Re: Project No. 13-3 Preliminary Views – Economic Condition Reporting: Financial Projections

Dear Mr. Bean,

Thank you for the opportunity to provide input on the GASB Preliminary Views (PV) on issues related to **Economic Condition Reporting: Financial Projections**. This letter represents the viewpoint of Arizona State University's Financial Services Office (FSO) only. Financial Services is responsible for the preparation of the ASU audited (annual) Financial Report (AFR).

Primary users of the AFR include rating agencies, state legislative bodies, governing boards, bond holders, and taxpayers. To the best of our knowledge, these users have not requested that financial projections be included in the AFR and we contend that currently available information is sufficient. The detail notes to the financial report include comprehensive information regarding the University's outstanding debt, long-term liabilities, and operating leases. The economic outlook section of Management's Discussion and Analysis includes discussion of known significant future events. Subsequent event notes address events that would materially impact the financial statements and financial sustainability of the University. If a user does need information not included in the AFR, the University provides supplemental information on its website and in other sources, for example:

- The University's current year budget is available on its website.
- The University's multi-year Capital Improvement Plan and Campus Development Plan are published on the University's website, making information regarding upcoming major capital projects readily available.
- Debt issuance official statements provide investors sufficient information for determining the financial stability of the University.

Primary users of the AFR do, however, highly value the timely completion of a high-quality audited financial report and the information included in the AFR is needed to inform time-sensitive critical economic and public-policy decisions. The inclusion of Economic Condition Reporting in the AFR will delay issuance of the report and potentially compromise the quality of the report by straining limited resources. The University allocates considerable resources in a complex highly-coordinated manner to produce a quality AFR in the time-frame requested by its users. The inclusion of this reporting will

require the assignment of additional staff from departments not currently involved in preparation of the AFR. Additionally, the information will need to be reviewed and vetted internally by University administration and potentially externally by the University's governing Board and the State of Arizona legislature since these entities are responsible for decisions that drive the factors underlying the projections. Not only will this additional reporting delay issuance of the report, it will require the use of publically-supported resources for an endeavor that does not add commiserate value, which is particularly disheartening in these difficult economic times

With regards to the proposed data, providing financial forecasts five years into the future is problematic and assumes a level of certainty regarding the University's financial outlook that does not exist. Major revenue sources (state appropriations, tuition rates, federal grants, private gifts) are subject to change annually and forecasts based on potentially flawed assumptions are of little use. Specific concerns regarding the determination of longer-term projections include:

- We are all well aware of the perils of predicting future political, economic, and social trends, and the unreliability for projections based on these trends. Financial projections made five years ago based on conservative and reasonable assumptions, but made prior to the onset of the great recession, would prove to be largely without merit when compared against the fiscal year 2011 actual financial results.
- Projections become increasing unreliable as time continues and five years seems to be past the point of comfort. Financial projections for at most one to two years would have some reliability and better serve the public, if in fact projections are deemed necessary.
- In the absence of a precise data set used as the authoritative reference for projections, projections deemed too conservative or too favorable could lead to criticism of the preparer and thoughts of deception or poor fiscal planning.
- Without a prescribed process for preparing the financial projections we are diverting from the cornerstone of comparability. The PV appears to undermine the basic premise of many accounting standards, which have attempted to 'level the playing field' by adding standards which support for comparability of data.
- Projections could become the means to portray the message of the moment potentially leading to manipulation of information to support a desired result.

The AFR is the University's primary tool for reporting actual financial results of its operations and is relied upon as an unimpeachable source of accurate information. We are concerned that the inclusion of Economic Condition Reporting, based on trends, estimates, and best-guesses will have potentially harmful impacts with regards to how the data is used. First, including financial projections in the audited financial report may imply a level of review and assurance to accounting policies or standards that is not warranted. Although the PV indicates the information will be included as required supplementary information, and therefore not subject to audit, this is a relatively refined distinction not necessarily understood by all AFR readers. If economic decisions are based upon the projections, will governments be subject to legal action if the projections are not met? Other the other hand, the inclusion of projections and forecasts that do not rely directly on verifiable sources may compromise the

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perceived integrity of the entire AFR for some users. In a time when government entities are expected to be transparent in all actions, the intermingling of verifiable financial results and potentially unreliable financial projections appears counterproductive.

Attached are responses to the specific questions posed by the GASB in conjunction with the Preliminary Views (PV) on issues related to **Economic Condition Reporting: Financial Projections**. In summary, we do not believe long-term financial projections belong in the audited financial report. Information available in the AFR and from other readily available sources is generally sufficient. Efficiently producing a quality AFR in a timely manner is of prime importance to AFR users and this proposal will delay issuance, increase the cost to produce the AFR, and potentially weaken the credibility of the report. Additionally, there is a high likelihood that the proposed financial projections and forecasts will prove to be unreliable, at a minimum wasting public resources and potentially exposing governments to legal and financial liability. Rather than inclusion of Economic Condition Reporting, with the inherent issues noted in this response and others, inclusion of expanded MD&A narrative and/or analytical reporting based on historical data is recommended to fill the perceived reporting gap.

Thank you for providing this venue for our comments.

Sincerely,



Joanne M. Wamsley  
Senior Associate Vice President for Finance  
and Deputy Treasurer

Attachment

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**Re: Project No. 13-3 Preliminary Views -- Economic Condition Reporting: Financial Projections**

**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? Why or why not?

**FSO REPLY. We strongly disagree with including financial projections in the RSI.**

We believe it is impractical to accurately project all inflows and outflows. The AFR already provides information on long-term financial obligations, as well as other potential liabilities. Historical trends of revenues and expenses (inflows/outflows) provide a reasonable basis for analyzing the financial stability of the University.

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?

**FSO REPLY. We strongly disagree with including financial projections in the RSI.**

The three components proposed are reasonable, but we question the ability to give this level of analysis to all major inflows/outflows, especially in conjunction with issuing the AFR. Additionally, the value of the data is questionable since unknown events and conditions cannot by definition be reflected.

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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?

**FSO REPLY. We strongly disagree with including financial projections in the RSI.**

Using cash basis for inflows/outflows could lead to confusion when comparing such inflows/outflows to the accrual based statement of revenues, expenses and changes in net assets. We agree that financial obligations should be projected on an accrual basis. As noted above, long-term financial obligations are already presented in the AFR on an accrual basis.

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?

**FSO REPLY. We strongly disagree with including financial projections in the RSI.**

We agree with a principles based approach, but believe the implementation may be challenging when dealing with the ever changing financial attributes of the University.

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?

**FSO REPLY. We strongly disagree with including financial projections in the RSI.**

The basis of any such projection will be the University's operating budget, which has limited reliability the further into the future it is forecast. Based on economic uncertainties and the many factors influencing the University's budget, many of which are out of its direct control, five year projections are problematic at best. Reliance on them by others, given their inclusion in an audited financial report, could have unintended consequences.

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?

**FSO REPLY. We strongly disagree with including financial projections in the RSI.**

For the reasons cited above, we believe the audited financial report should not include financial projections.

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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?

**FSO REPLY. We strongly disagree with including financial projections in the RSI.**

For the reasons cited above, we believe the audited financial report should not included financial projections.

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)?

**FSO REPLY. We strongly disagree with including financial projections in the RSI.**

If GASB does issue a standard, the implementation date should be the same for all governments, and should be future dated enough so all currently issued GASB statements can be implemented. The burden on small vs. large governments is somewhat equalized with the complexity of larger governments and the lack of this information being readily available to many entities.