



## CITY OF GRESHAM

### Finance & Management Services

1333 NW Eastman Parkway

Gresham, OR 97030-3813

March 14, 2012

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

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

Dear Director,

Please accept the following response from the City of Gresham, Oregon. We are responding to respectfully express our opposition to the proposed changes in the Governmental Accounting Standards Board's (GASB) Preliminary Views Project No. 13-3: *Economic Condition Reporting: Financial Projections*.

**Overall.** It appears that the PV Project 13-3 if implemented would weaken the quality of financial reporting in several very key ways. It would slow down financial reporting. It would decrease the perceived reliability of our financial statements. It would confuse the average user while adding little of substantive value to the advanced user.

We believe that including future projections of financial condition in the audited financial statements will cause significant problems. The crux of the issue is that our financial statements are perceived to be factual representations of our City's financial position. Any included projections, regardless of disclaimer, are prone to be perceived as fact or a guarantee of future performance. This unintended perception of reliability will cause problems with budgeting and labor negotiations, to name a few.

Beyond weakening the reputation of our financial statements by including unreliable information, the logistics and effort of including this information will result in additional delays in issuing our report. At a time when relevant information is recent information, increasing the time between year-end and report issuance is counterproductive.

We are very concerned with the problems that would be created by releasing financial projections several months before the proposed budget is released. The scenario setup by the preliminary views will in essence force us to release revenue forecasts which may be woefully inaccurate, months before we would release the proposed budget for the next year. In addition to being confusing to the public this may be in conflict with Oregon Budget Law.

We recognize that forward looking projections may be of use to some users with the caveat that the information is produced in a reliable and consistent manner. Including this information in the Required Supplementary Information is improper and inconsistent with the purpose of creating a reliable unbiased report. We would support the financial projection reporting project as a voluntary implementation, as a new section in the CAFR or an expansion of the statistical section, or even as a separate (SEA style) report.

While we strongly object to the Preliminary Views Project for all the reasons stated above we are responding to the questions put forward by the Board.

**Question 1.** We agree with the components of fiscal sustainability, with the following comments and concerns:

Component 1 – We are concerned about the variability in grant revenue for the City. Grant revenue may be difficult to predict from year to year.

Component 4 – We understand the usefulness of projections of annual debt service payments, but this information is already included in the audited financial statements with the exception of the authorized but unissued debt. Authorized but not yet issued debt should be included in a subsequent event footnote. We understand that current standards do not require disclosure of the magnitude of the next five year's payments for authorized but unissued debt however, users of the financial statements should understand that annual debt service payments may be increased. Repeating the annual debt service payments in the projections section is redundant.

Component 5 – We believe that *GASB 61* takes care of some of the assumptions and effects of fiscal interdependencies that exist between various governmental entities.

**Question 2.** We agree with the preliminary view 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. In general, we believe that this will take away some speculation inherent in the projections because they will be based on current policies not potential policies. In addition the Board should provide guidance on how to project known events with uncertain outcomes (rate setting, current court cases, varying statutory funding).

**Question 3.** We agree that inflows and outflows should be projected on the cash basis of accounting, and financial obligations should be projected on the accrual basis of accounting. We believe that it should be easier to project financial obligation information on the accrual basis of accounting and everything else on the cash basis of accounting.

**Question 4.** We agree that the financial projections should be guided by a principles-based approach. In general, it would clearly be difficult to set forth guidelines for every situation. We are concerned that although a principles-based approach is easier for reporting purposes, comparability between governmental entities will be impossible as the assumptions are subjective and would not be consistently applied across governmental entities.

**Question 5.** We disagree that a five year minimum is reasonable for projections. Every year further into the future the projections will be less reliable and based more on unknowable variables. While projection year 4 and 5 may be somewhat relevant to a user the complete lack of reliability makes this information a false sense of security. If this project is pursued we would propose a 2-3 year minimum projection.

**Question 6.** We disagree with the preliminary view that the components of fiscal sustainability should be required and communicated as required supplementary information. As stated above, we believe projections should not be required in the audited financial statements.

If this potential standard for projections is going to be required in the audited financial statements, we believe it should be reported in a separate section similar to the introductory and statistical sections. A separate section would eliminate the additional costs associated with having our independent auditor responsible for these projections.

**Question 7.** We disagree with the preliminary view that all governmental entities should be required to report financial projections and related narrative discussions. As stated above, we believe projections and the related narrative should not be required or presented in the audited financial statements.

**Question 8.** This question is not applicable as we disagree that the financial projections should be included in our financial statements.

**Summary.** We agree with the alternative view in Chapter 6. We believe that the benefits of this potential standard do not justify the additional costs of staff resources, potential increased audit fees, and the potential adverse affect on the timeliness of the audited financial statements. Please consider making these projections reporting voluntary if they have to be made at all.

We appreciate the opportunity to provide input on the Preliminary Views.

Sincerely,



Bernard Seeger,  
Acting Director, Finance and Management Services  
City of Gresham, OR