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Mr. David R. Bean  
Director of Research and Technical Activities  
Project No. 13-3  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

Thank you for the opportunity to present our firm's views on the Governmental Accounting Standards Board (GASB) Preliminary Views (PV), *Economic Condition Reporting: Financial Projections*.

### **GENERAL COMMENTS**

We agree governments should assess their economic condition. We support the idea that projections help governments make better decisions. We also encourage the notion that governments should share all information useful in assessing fiscal sustainability with citizens and other interested parties. We agree having all information relevant to this assessment in one place facilitates users' abilities to obtain and understand the information. We think compiling and disseminating the five components proposed in the PV is consistent with transparency and good governance.

We do not believe required inclusion in the annual financial statements is the best mechanism for communicating this information to users. Certainly annual financial statements are part of the information pertinent to the assessment and already include, to some extent, several of the components listed in the PV. However, we do not believe the purpose of financial statements should be expanded to accommodate this aspect of transparency and governance obligations, nor is the information essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. In addition, the annual financial statements are comprised of many statements and schedules prepared on different bases of accounting. The five components would be additional schedules prepared on bases differing from many of the already included statements/schedules and differing from each other. For these reasons, users could have difficulty focusing on the components and readily assessing economic condition.

Mr. David R. Bean  
Governmental Accounting Standards Board  
Page 2

While we believe projections should not be included with historical information presented in general purpose external financial reports, the five components are well within the purview of governments' budgeting, forecasting and strategic planning disciplines. We see a distinction between external historical financial reporting and budgeting, forecast modeling, and strategic planning. These projections would fit well into documents presenting budgeting/forecasting and/or strategic planning. The five components could also be published in a stand-alone document.

More importantly, we believe members of governance and their constituents should make their own decisions about how to assess economic condition and how best to disseminate this information. Many governments and users could benefit from guidance and education about the tools and methods available for assessing economic condition. However, members of governance and their constituents are able to determine their own needs in this area and to judge the most cost-beneficial approach to producing and communicating this information. We contend no one approach should be mandated to all governments, especially for inclusion in annual financial statements.

If this requirement moves forward, we believe a better place for the presentation of these projections is in the supplementary information (SI) section of the financial statements, not with the required supplementary information (RSI). (The GASB has already given guidance on SI items in Statement No. 44, *Economic Condition Reporting: The Statistical Section*. Therefore, providing guidance on financial projections as SI would not set precedence.) We do not agree with the PV that all of the components of fiscal sustainability are essential for placing the basic financial statements and notes in an appropriate operational, historical, or economic context. Instead, we agree with the Alternative View that this information does not meet the definition of RSI in Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements*. Financial projections are not essential for placing basic financial statements and notes in an appropriate operational, economic, or historical context. Also, Concepts Statement No. 3 states that RSI should not include subjective assessments of the effects of reported information on the government's future financial position. We believe there is subjectivity in preparing these projections, and the projections do provide information on future financial position.

In addition, professional standards require auditors to perform certain limited procedures on RSI, even though auditors disclaim an opinion on this information. Because the paragraph on RSI in the auditors' report explains that limited procedures were performed, even though it also states no opinion is being expressed, we have concerns that users may not understand the auditors' role. We believe there is a potential for users to think the auditor is providing assurance on

Mr. David R. Bean  
Governmental Accounting Standards Board  
Page 3

the RSI. However, with SI, the auditors' report can more simply and clearly state that no opinion is being expressed.

Our answers to the specific questions posed in the PV are in the following "Response to Questions" section.

## **RESPONSE TO QUESTIONS**

### **Question 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:*

- *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 fluctuation in cash inflows.*
- *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.*
- *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.*
- *Component 4 - Projections of annual debt service payments (principal and interest).*
- *Component 5 - Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies.*

*Do you agree with this view? Why or why not?*

We agree the components presented are useful in assessing fiscal sustainability. The components seem to be comprehensive in covering major financial activities. Component 4 seems to be already addressed in the long-term debt footnote with the requirements of disclosing a schedule of maturities. Narrative discussions and explanations are especially important in helping users understand assumptions made in preparing the projections and implications of the results of the projections.

Mr. David R. Bean  
Governmental Accounting Standards Board  
Page 4

However, for reasons stated in the General Comments section, we do not believe these components should be presented in general purpose external financial reports, especially in the RSI section of such reports.

**Question 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. Do you agree with this view? Why or why not?*

We agree with this general approach. Basing financial projections on current policy, historical information and known events helps eliminate some subjectivity from the process and helps prevent the projections from appearing to be predictions of the future.

**Question 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?*

We agree presenting inflows and outflows on a cash basis and financial obligations on an accrual basis would be an effective method for helping assess an entity's economic condition. This approach would seem to present major aspects of a government's upcoming resource requirements.

**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?*

Mr. David R. Bean  
Governmental Accounting Standards Board  
Page 5

We agree that the assumptions for making financial projections should be guided by a principles-based approach. We also agree that disclosure of the assumptions should be required.

Additionally, the emphasis in this approach seems to be on historical knowledge only, which, on the one hand is consistent with the view in Question 2 above. On the other hand, it contradicts somewhat with the approach in Question 2 that projections be based on known events. Known events could include upcoming factors that have not happened yet but whose outcomes have limited possibilities. For example, a government may know a taxpayer vote on increasing sales tax for a specific purpose will be held a few months after projections are due to be issued. We therefore suggest governments should, at a minimum, disclose such events, not as assumptions used in the projection, but as additional disclosure of information to the users.

**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?*

The longer the projection period, the greater the possible variances between actual results and assumptions, decreasing the reliability of the projections in the latter years. Although five years does not seem unreasonable, it may be beneficial to consider three years because many governments already budget and forecast on a three-year period.

**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?*

As discussed in the General Comments section, we strongly disagree that the components of fiscal sustainability are essential for placing the basic financial statements and notes in an appropriate operational, historical, or economic context. The components only give financial statement users a view of future sustainability or outlook of the government based on management's assumptions. Forward-

Mr. David R. Bean  
Governmental Accounting Standards Board  
Page 6

looking information is not essential to the main purpose of the historical nature of the basic financial statements and notes.

We also disagree that the projections should be included in RSI, if they are presented in the annual financial statements. RSI should not include subjective assessments about future events. If the components are included in the financial statements, they should be presented as SI. However, as stated in the General Comments section, we believe these projections would be better included in budgeting, forecasting, and/or strategic planning documents, not in financial statements presenting historical information.

**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?*

We disagree with requiring all governmental entities to report financial projections and related narrative discussions. As we have said, we think compiling and disseminating the five components proposed in the PV is consistent with transparency and good governance. However, members of governance and their constituents are able to determine their own needs in this area and to judge the most cost-beneficial approach to producing and communicating this information.

One of GASB's philosophies is to not add undue burden or cost on a government when implementing a new standard. Because of cost, as well as the needs of the users of certain governments' financial statements, smaller, less complex governments should be exempted from the requirement.

Also, we believe general purpose government financial statements could benefit the most from these financial projection schedules. Certain fiduciary statements do not have a need for most, if not all, of the five components. Pension plans and OPEB statements already have RSI that communicates sustainability. Business-type activities are intended to be self-sustaining, focusing on profits, not providing services. The assessment of sustainability seems to be already inherent in the business-type activity model.

**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)?*

Mr. David R. Bean  
Governmental Accounting Standards Board  
Page 7

Should financial projections become a requirement, considering practicality, especially from the viewpoint of smaller governments, we believe a phase-in period would be beneficial. The criteria used by GASB Statement No. 34 previously worked effectively and would seem to be appropriate for also implementing these components. Smaller entities could learn from observing how larger governments implement the mandate. There would also be time for training seminars on the topic before they have to implement. Additionally, from an audit standpoint, to the degree that firms would have clients in multiple phase-in categories, it could help auditors spread out their involvement in such a substantial increase in financial statement preparation workload across a few years.

Thank you for considering our input on this preliminary views document. We would be happy to discuss these comments with you at any time.

Sincerely,

A handwritten signature in black ink that reads "RubinBrown LLP". The signature is written in a cursive, flowing style.

RubinBrown LLP