March 7, 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

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

Thank you for the opportunity to review and comment on the above preliminary views (PV) document. The University of Texas System strongly disagrees with the requirements of the PV and support many of the views expressed in the alternative view.

General Comments
We recognize that financial sustainability of state and local governments is an important issue and we appreciate GASB considering how to meet the needs of users of financial information. However, since GASB Concepts Statement No. 1 was issued in 1987, GASB has implemented a new reporting model, effective in 2002, and has issued 30 additional statements since adopting GASB 34/35 which have greatly improved financial reporting by bringing many items onto the balance sheet that used to be off balance sheet items (i.e., long term debt, pollution remediation, pensions, and OPEB). Existing balance sheets, note disclosures, and required supplementary information (RSI) requirements already address many of the reporting needs the board believes a user needs to assess a government’s fiscal sustainability. We do not believe that the five components necessary to assist users in assessing a governmental entity’s fiscal sustainability are absent from exiting financial reporting information or that financial projections should be RSI for the reasons stated below.

We support the alternative view expressed by two of the GASB board members which states 1) that these financial projections are not essential for placing the basic financial statements and note disclosures in an appropriate operational, economic, or historical context, and 2) that the financial projections do not meet the definition of RSI, which would “place the basic financial statements and notes in context.” We agree with Concept Statement 3 paragraph 44 that RSI does not include “subjective assessments of the effects of reported information on the reporting unit’s future financial position,” which we believe describes financial projections.
UT System also agrees with the second point in the alternative view concerning the cost-benefit of this RSI and the effect on the timeliness of audited financial statements. Governments are barely able to produce their audited financial statements within six months of year end due to the amount of data that must be included in the statements now. Preparation of the annual financial statements is a significant activity requiring considerable effort and overtime at each of our campuses and at the System level. Adding this additional level of complexity to the statements will only make producing timely statements more difficult. It is believed that the addition of this reporting standard would require us to add a significant number of staff throughout the university at a time when funding is being cut, outweighs the value of the proposed economic condition reporting.

We are in agreement that projections are important, but they are a part of the budgeting process, not annual financial statements. Currently at UT System, five year financial forecasts are used in the budget preparation process, particularly when issuing debt; however, budgets are a living breathing document that change as new facts emerge and they are not published as part of audited financial statements.

**Potential for Manipulation of Projections and the Inability to Compare Projections Across Institutions**

An institution can come up with assumptions to support whatever picture they wish to show. Projections are too subjective to present in annual financial statements even if the assumptions behind them are reasonable. If an institution presents a forecast that appears too positive, then politicians can redirect funding because it might appear that the institution does not need the funding; therefore most institutions would lean toward extremely conservative projections, but, not so conservative that Bond Rating Agencies might downgrade the given institution. You can quickly see how subjective this process is and how there would be no way that the data presented could be relied upon and certainly not compared between institutions. However, if this PV becomes a reality, we can guarantee you that data will be compared among institution by people who do not realize how subjective this data is. This becomes even more problematic at the CAFR level, because the State would be combining projections of highly subjective data, none of which were prepared using the same assumptions or with the same end point in mind.

**Unintended Audit Consequences**

While RSI is labeled as unaudited, like the Management's Discussion and Analysis (MD&A), the auditors still review these items as part of the annual audit and ask for support. Auditors by nature are very conservative and require us to be conservative when discussing uncertainties and possible future events. They are reluctant to accept a forecast that cannot be supported even if it is only RSI for which they will not express an opinion. In addition, we are concerned that it will create Management Comments when the five year forecast continues to change every year as a result of changes in circumstances, changes in policy, new priorities emerging or appointment of new Board members or elected officials. Only the most sophisticated readers will understand that the projections are not included in the auditors’ opinion, even if the opinion letter states it is not. This reporting requirement would require us to present three years of past performance in the MD&A, five years of future performance in the RSI and in between would be the current audited financial statements. Audited financial statements are intended to present historic information that will not change over time, but the projections will most definitely change every year and we believe that this will confuse readers and result in Management Comments from the auditors as to why we cannot predict the future more accurately.
March 7, 2012
PV Financial Projections
Page 3

In summary, GASB has done an excellent job of improving financial reporting by bringing many items onto the balance sheet that used to be off balance sheet items. In addition, note disclosures and RSI requirements already address many of the issues the board believes is necessary for a user to assess a government’s fiscal sustainability (i.e., long term debt, pollution remediation, pensions and OPEB). Financial statements are prepared using prescribed generally accepted accounting principles. Audited financial statements are intended to present historic information that will not change over time, but the projections will most definitely change every year and we believe that this will confuse readers. Introducing a subjective document into financial statements which GASB has worked so hard to make comparative, is taking a large step backwards in our opinion.

Sincerely,

Randy Wallace
Associate Vice Chancellor – Controller
and Chief Budget Officer

RW/dm

c: Scott Kelley
  Dana Malone