March 8, 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: Preliminary Views Project No. 13-3: Economic Condition Reporting: Financial Projections

Dear Director,

Please accept the following as the official response to Preliminary Views Project No. 13-3: Economic Condition Reporting: Financial Projections on behalf of the Alaska Government Finance Officer’s Association (AGFOA) as per your request for comment.

The AGFOA believes that, while financial projections may aid in assessing a governmental entity’s fiscal sustainability, they do NOT belong in the audited financial statements. The inclusion of such projections in audited financial statements may be misleading and cause users to have false expectations about the future performance of the government.

The AGFOA believes that these projections could have a negative impact on the governmental entity. Many users would neither read nor understand the cautionary notice and may rely on these projections as fact. Such projections could adversely affect the entity in bargaining negotiations, election years, debt issuance, and various other situations. Many governmental entities have bargaining agreements, which could be adversely affected in negotiation years. Also, there may be political pressure from those charged with governance to omit unfavorable information in election years.

The AGFOA believes that this standard, if enacted, will be burdensome for governmental entities. The benefits to the users of the audited financial statement do not justify the additional costs associated with compiling and reporting these projections since the information that is necessary to calculate these
projections is not currently available for most governmental entities. Further, this potential standard will delay the issuance of financial statements at a time when users are requesting more timely reports.

The AGFOA believes that this standard, if enacted, should be made VOLUNTARY ONLY, like the service efforts and accomplishments reporting.

The AGFOA is in agreement with the ALTERNATIVE VIEW as described in Chapter 6.

Below please find the specific comments to Questions posed to respondents:

**Question 1.** The AGFOA is generally in agreement with the components of fiscal sustainability, with the following comments and concerns:

Component 1 – Some members are concerned about the variability in grant revenue for small governmental entities. Grant revenue may be difficult to predict from year to year.

Component 4 – The AGFOA understands 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 but, 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 – The committee believes that GASB 61 takes care of some of the assumptions and effects of fiscal interdependencies that exist between various governmental entities.

**Question 2.** AGFOA members 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, committee members believe that this will take away some speculation inherent in the projections because they will be based on current policies not potential policies.

**Question 3.** AGFOA members 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. Committee members 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.** AGFOA agrees 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. The committee is 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. The AGFOA members agree that a minimum five years of projections beyond the reporting period is adequate. However, we are concerned that many governments do not have the resources to prepare these projections on an annual basis.

Question 6. AGFOA members disagree with the preliminary view that the components of fiscal sustainability should be required and communicated as required supplementary information. As stated above, the AGFOA believes projections should not be required in the audited financial statements. We believe this additional information will result in significant additional time and significant additional cost to the external audit.

Question 7. AGFOA members disagree with the preliminary view that all governmental entities should be required to report financial projections and related narrative discussions. For the reasons stated above, the AGFOA believes that these projections and the related narrative should not be required or presented in the audited financial statements.

Question 8. AGFOA members do believe that, if this standard is enacted, a phase-in period and threshold limits (such as that used with GASB 34 implementation) would be appropriate.

In closing, the AGFOA agrees 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. If enacted, these standards should be made voluntary.

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

Sincerely,

Walter Sapp
Alaska Government Finance Officer Association President