



WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

902 140TH AVENUE
BELLEVUE, WA 98005-3480
(425) 644-4800

February 27, 2012

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

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

Dear Mr. Bean:

The following is the response of the Government Accounting and Auditing Committee (GAAC) of the Washington Society of Certified Public Accountants (WSCPAs). The views expressed are the views of the Committee and not necessarily the views of the individual members or the WSCPAs as a whole. We are pleased to have the opportunity to respond to the Governmental Accounting Standards Board's (GASB) Preliminary Views (PV) Economic Condition Reporting: Financial Projections.

We support the mission of GASB, to establish and improve standards of state and local governmental accounting and financial reporting.

Overview of Our Response:

We believe that the GASB is departing from its appropriate jurisdiction regarding historical financial accounting and reporting, and therefore, should abandon this project regarding projections of future events. We also believe that sufficient information is already provided in a CAFR to allow those that need to project future results can use historical trending information without requiring the government to do the work that the investment community should do.

Our GAAC members reviewed the PV and we have synthesized our various views in this response. In addition, GAAC members sought input from the government accounting community in Washington State to inform our response. In general, the responses indicate an **agreement with the alternative view** expressed by two GASB Board



WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

902 140TH AVENUE
BELLEVUE, WA 98005-3480
(425) 644-4800

David R. Bean
February 27, 2012
Page 2 of 8

Members, **except that our constituency does not believe that the development of forward looking financial information is appropriately within the GASB's jurisdiction.** We believe that much information that users could use to reach their own conclusion on the future fiscal sustainability by looking at the 10-year historical schedules, such as the changes in net assets or the changes in fund balances of governmental funds, because history does provide an essential context for the future. However, because this information is only currently available in the CAFR not the AFR, this could be remedied by moving these schedules to RSI in all reports.

Most often cited concerns include:

- An inappropriate departure by the GASB from historical financial information;
- The creation of additional potential liability to government officials, which in our opinion has not been thoroughly vetted by the GASB;
- The cost–benefit of such new requirements;
- The short term nature of financial policy based on election results and/or the related effect of political matters on the projections; and
- Concerns from the auditing community regarding the ability to “audit” projections in the context of a historical financial audit.
- Forecasting is more appropriately performed as a budgeting and business management tool and is already available in the budget and bond issuance publications.

These concerns are addressed in the following comments and are not repeated in our response to specific questions posed by this PV provided later in our response.

GASB Jurisdiction:

As indicated, we agree with the alternative view that projections should not be required as RSI. However, we disagree with the alternative view that the development of forward-looking financial information is within the scope of the GASB. While some of our governments in Washington State do provide projections of revenue, costs and capital programs, they are provided in the context of a budget document, not subject to the same scrutiny as the annual financial report or a CAFR. The imposition of GASB standards affecting budget preparation documents is, in our opinion, inappropriate. How a government management decides to plan for the future is beyond accounting and reporting requirements and would involve expertise that is not currently available to many government accounting organizations.



WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

902 140TH AVENUE
BELLEVUE, WA 98005-3480
(425) 644-4800

David R. Bean
February 27, 2012
Page 3 of 8

Additional Liability Resulting From This Potential Standard:

This concern was most often cited by CEOs of government agencies as well as our members. Projecting revenues that are tied to future economics: US trade policy, gasoline prices, U.S. Federal policies and grants-in-aid, etc. cannot be projected with any degree of reliability. For those government agencies that access the municipal bond market on a regular basis, this future projection requirement creates substantial liabilities if uncontrollable events take place that yield the projections substantially deficient. We do not believe that the GASB has done sufficient due diligence on the added liability exposure to government agencies and their officials. This issue also affects our comments on the cost-benefit issue discussed below.

Cost-Benefit:

We question the cost-benefit relationship of the proposed reporting financial projections for preparers and auditors in governmental entities. The CAFR is already very costly to produce which is why many small governments have stopped doing it. We believe that current disclosure of environmental remediation, long-term debt service requirements and pension/OPEB disclosure are sufficient to provide the investment (user) community with the information they need to assess the current financial condition of the government. Related to the additional liability discussed above, we believe that if this PV were adopted into practice, not only will auditors require additional time to “audit” the RSI, but legal counsel will insist that future liability be addressed within their considerations to protect the agency, along with substantial extra costs. Since we believe that the current disclosure requirements are sufficient for the investment community, we believe that any extra costs are not cost beneficial. Many are concerned about the effect the proposed reporting financial projections will have on the timeliness of the CAFR; i.e., whether entities will be able to meet the current six-month standard. Given the current economic environment, we doubt that any legislative body will provide additional resources to this new requirement, when public safety staff is being cut from budgets.

Political Policy:

We have a robust citizen initiative and legislature referendum process in Washington State. It is common for a citizen initiative to be overturned in the judicial system and the State Legislature can overturn a citizen initiative after two years. As such, using the current policy (PV Chapter 4, paragraph 2) is unreliable for projecting tax receipts and directed expenditures (e.g. basic education). In addition, local governments can have a substantial change in their legislative body every two years. Basing five-year projections



WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

902 140TH AVE NE
BELLEVUE, WA 98005-3480
(425) 644-4800

David R. Bean
February 27, 2012
Page 4 of 8

on current policy would be unreliable in this situation. Given our state and local political processes, any projection based on current policy would be unreliable over a two-year period and any explanation of the causes for the unreliability would further confuse the user.

Concerns from the Auditing Community:

As is our customary practice, we view potential changes in governmental accounting practices within the context of private sector accounting practices. In this regard, we believe the GASB should consider the existing standards for forward-looking information contained in Management's Discussion and Analysis (MD&A) for registrants with the Security and Exchange Commission (SEC). Currently, the items to be included in the GASB's MD&A are limited to those items proscribed. Allowing for a more broad-based discussion of economic condition and fiscal sustainability in the MD&A, similar to the discussion provided by registrants with the SEC, would provide the type of information that the investment community is seeking, without the risks and issues inherent in quantified projections of specific inflows and outflows over a five-year period.

We believe that the attestation risk associated with a narrative discussion of the general financial condition outlook of a government's finances in the MD&A is substantially less than the risk associated with specific components of five-year projections as RSI. We believe that the information provided in an MD&A-type discussion will be more informative and less costly than the GASB's proscribed specific five-year projection requirements. In addition, a more general discussion will create less conflict between attestors and preparers in deciding the type, source and reliability of information provided.

Responses to Specific PV Concepts:

As the GASB has requested, we have provided our responses by item requested below. **However, as indicated in our overall response discussed above, we agree with the alternative view that projections should not be required as RSI. However, we disagree with the alternative view that the development of forward-looking financial information is within the scope of the GASB.**

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):



WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

902 140TH AVENUE
BELLEVUE, WA 98005-3480
(425) 644-4800

David R. Bean
February 27, 2012
Page 5 of 8

- 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?

WSCP A RESPONSE:

We do not agree with projections of any kind. With a frequently changing governing body with different views on tax and program expenditure policy, any projections to future periods are very unreliable, and as a result will be misleading to investors. As an alternative, the GASB should consider the MD&A requirements to include a discussion of historical major revenue and expense changes/trends over a certain historical period of time and an indication as to how those revenues and expenditures are expected to change over the near-to-intermediate term (2-5 years) in a narrative format. Debt service payments in the future (component 4) are already required disclosure. Regarding authorized and unsold bonds, we believe this should be already required under the existing commitment disclosure. Regarding component 3, we believe this is an important disclosure in the notes as opposed to RSI. However, actuarial valuations change from year to year and this can be addressed in the pension and OPEB note disclosures. Finally, regarding item # 5 above, we believe that this can be accomplished in an amendment to GASB 34 in the MD&A.



WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

902 140TH AVENUE
BELLEVUE, WA 98005-3480
(425) 644-4800

David R. Bean
February 27, 2012
Page 6 of 8

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?

WSCP A RESPONSE:

We do not agree with projections of any kind. With a frequently changing governing body with different views on tax and program expenditure policy, any projections to future periods are very unreliable, and as a result will be misleading to investors.

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?

WSCP A RESPONSE:

We do not agree with projections of any kind. If we agreed to financial projections, which we do not, we would agree to reporting cash inflows and outflows on a cash basis. However, we understand that for reporting substantial liabilities for pension and OPEB the cost incurred for the period (earned benefits versus the contribution made to pension and OPEB plans), should be reported. However, we believe that this is more appropriately presented in the pension and OPEB notes and not as a financial projection.

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?

WSCP A RESPONSE:



WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

902 140TH AVENUE
BELLEVUE, WA 98005-3480
(425) 644-4800

David R. Bean
February 27, 2012
Page 7 of 8

We do not agree with projections of any kind. If financial projections are to be required (with which we do not agree), we agree that assumptions should be principles-based.

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?

WSCP A RESPONSE:

As previously stated, **we do not agree to any financial projections** because the “current policies” are not solid.

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?

WSCP A RESPONSE:

As previously stated, **we do not agree to any financial projections** because the “current policies” are not solid. However, if the GASB wants to provide future-looking information, we believe a narrative discussion in the MD&A, similar to SEC registrants, should be considered.

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?

WSCP A RESPONSE:

As previously stated, **we do not agree to any financial projections** because the “current policies” are not solid. However, if the GASB wants to provide future-looking information, we believe a narrative discussion in the MD&A, similar to SEC registrants, should be considered. Given this perspective, all governments should report the same information.

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,



WASHINGTON SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

902 140TH AVENUE
BELLEVUE, WA 98005-3480
(425) 644-4800

David R. Bean
February 27, 2012
Page 8 of 8

requiring governmental entities over certain dollar thresholds to implement first)? If so, what phase-in criteria would you recommend (Chapter 5, paragraph 14)?

WSCP A RESPONSE:

As previously stated, **we do not agree to any financial projections** because the “current policies” are not solid. Because the burden is representative between large governments and small governments, there is no reason to phase in the requirements between governments.

Thank you for the opportunity to respond. We are concerned that this PV, as drafted, changes the financial reporting framework that currently works very well and replaces it with something that goes beyond basic historical accounting tenets. We believe that the GASB should allow for accounting professionals to apply sound judgment to forward looking statements that might involve future projections in currently required RSI (specifically MD&A) or note disclosures as opposed to adding a new set of RSI for specific numeric projections. If you have any questions or need additional information regarding this response, please contact Steve Miller at (206) 281-0281 or Mike Cheney at (360) 491-8094.

Sincerely,

SENT VIA E-MAIL to director@gasb.org

Nestor Newman, Chair
Government Accounting and Auditing Committee
Washington Society of Certified Public Accountants