

LEGISLATIVE AUDIT DIVISION

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Governmental Accounting Standards Board
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To Whom It May Concern:

We appreciate the opportunity to respond to the "Preliminary Views of the Governmental Accounting Standards Board on major issues related to Economic Condition Reporting: Financial Projections." Members of our staff have read the preliminary views and our responses to the questions included in the document are included below.

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. Do you agree with this view? Why or why not? We agree components 1, 2, 3, and 5 should be included. We do not believe component 4 is necessary. You have already taken this component into consideration.
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 period. 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 final projections should be based on current policy and historical information. The view provides an adequate basis for developing projections.
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. Do you agree with this view? Why or why not? We agree that inflows and outflows should be projected on a cash basis of accounting and financial obligations should be projected on an accrual basis. Additional notes describing the basis of accounting may be necessary so that it's clear to the readers of the financial statements.
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 period. 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 condition. Do you agree with this view? Why or why not? The assumptions should be consistent with each other and the information used as the basis for assumptions. The assumptions should be comprehensive by considering the significant trends events and conditions. This could leave it too open to interpretation.
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. Do you agree with this view? Why or why not? We do not agree with this view. The concern is that there are too many variables that could result in changes to these projections (for example, legislative sessions). Projections beyond a couple of years have no real value.
 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. Do you agree with this view? Why or why not? We disagree. This information should not be presented because the readers may place more reliance on it than they should. Financial reporting primarily focuses on past events. This will not add to the understandability of the financial statements.
 7. The Board's preliminary view is that all governmental entities should be required to report financial projections and related narrative discussions. Do you agree with this view? Why or why not? We agree. There is no reason governmental entities should be excluded. Without this requirement, the financial information would not provide for comparability between governments.
 8. Do you believe that a phase-in period for implementing the reporting requirements for financial projections and related narrative discussions would be appropriate? We do not believe a phase-in period is appropriate. However, it may put more burden on the smaller governments.

If you need additional information concerning our response, please contact me at (406) 444-3122.

Sincerely,

/s/ Brenda Kedish

Brenda Kedish, Senior Auditor
Financial-Compliance Audits

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By e-mail