

March 13, 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

Submitted via email to [director@gasb.org](mailto:director@gasb.org)

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

Dear Director of Research and Technical Activities:

On behalf of the members of the Virginia Society of CPAs (VSCPA), the VSCPA Accounting & Auditing Advisory Committee has reviewed and discussed the proposed *Preliminary Views on major issues related to Economic Condition Reporting: Financial Projections* (Preliminary View) issued by the Governmental Accounting Standards Board (Board). The VSCPA is a leading professional association dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. The VSCPA membership consists of more than 10,000 individual members who actively work in public accounting, private industry, government and education. We appreciate the work the Board has undertaken on this effort and the opportunity to respond to this Preliminary View.

**General Comments**

It appears the proposed view goes beyond the traditional financial reporting scope, and it is not clear whether the proposed information would be useful to users of government financial statements. Further the requirement to provide this information would be an additional burden to governmental entities that may further delay the timeliness of issuing financial statements at a time when there is pressure to issue filings quicker. In particular, we believe these new requirements would be burdensome for the smaller government entities that lack the resources and expertise needed to prepare accurate and reliable financial projections. We agree with opinions and suggestions that the two Board members proposed as an alternative view and recommend that the Board give further consideration to what they have proposed.

The VSCPA offers the following comments related to the "Questions for Respondents" section of the proposal:

***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 fluctuations 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 fluctuations 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?**

**Response:** We agree with the Board's view that identifying components of fiscal sustainability information should focus on information that is (a) useful in assessing fiscal sustainability; (b) a faithful representation of fiscal sustainability; (c) quantifiable, if applicable; (d) not overly burdensome to governmental entities to develop, measure, report and analyze; and (e) relevant to both general purpose and special-purpose governmental entities. We support the disclosure of the interdependencies of government agencies as this is consistent with the requirement of public companies to disclose concentrations of credit risk. We further recommend that reporting on intergovernmental dependency is an important issue in itself and should be considered as a separate project by the Board.

**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?**

**Response:** We agree with the Board's view that financial projections should include all the aforementioned in order to develop financial projections for purposes of this standard.

However, due to the limited resources and expertise in certain of the smaller government entities, we have concerns regarding their ability to make reasonable financial projections in compliance with the guidance outlined in this proposed view.

We believe that making adjustments for "known events and conditions" can be interpreted broadly and its subjective nature could lead to varying projections.

We further believe that unanticipated policy changes and unknown events could render the financial projections meaningless, especially when projected out five years. Thus, should actual results vary significantly from the financial projections, there could be a loss of public confidence in the reporting government entity and those individuals responsible for making the projections.

For all these reasons, we support the cautionary notice as described in the proposed view. We concur with having this disclosure precede the displayed financial projections and related narrative discussions, advising readers that actual results may vary from the financial projections reported.

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

**Response:** We agree with the Board's view that inflows and outflows should be projected on a cash basis of accounting. This appears to be a practical matter, as many governmental entities may not have additional resources to prepare projections of inflows and outflows on any other basis of accounting, and the cash basis of accounting most likely is used for budgetary purposes. The cash basis of accounting would be the least complicated of accounting methods to apply and as such could enhance the reliability of the projected inflows and outflows. Also, we agree with the Board's view that financial obligations should be projected on an accrual basis of accounting so as to provide users with more complete information on the financial obligations incurred by the entity.

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

**Response:** We agree with the Board’s view that the identification and development of assumptions for making financial projections should be guided by a principles-based approach as the most relevant projections are those that are based upon known information that would influence future financial results. We would recommend that the Board consider providing some guidelines for methods and sources of data that preparers could rely on when making financial projections.

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

**Response:** We disagree with the Board’s view that the annual financial projections should be made for a minimum of five individual years beyond the reporting period. We feel two to three individual years would be more appropriate than a minimum of five individual years. The further out projections are made, the less precise they will be. There is much that can take place in a five-year time frame that would make it difficult to prepare reliable projections.

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

**Response:** We disagree with the Board’s view that all of the components of fiscal sustainability information should be required and communicated as required supplementary information. We do agree with the alternative view that has been proposed by the two Board members that financial projections and related narrative discussions should not be disclosed as required supplementary information in an annual financial report (AFR) or comprehensive annual financial report (CAFR).

We agree with the minority view that this information is not “essential for placing basic financial statements and notes to basic financial statements in appropriate operational, economic, or historic context,” and that the required supplementary information should not include subjective assessments of the effects of reported information on a reporting unit’s future financial position. Furthermore, we agree with the two Board members’ view that the Statistical Section of a CAFR could be reclassified as required supplementary information and as such would provide an alternative to address fiscal sustainability information needs.

**Question 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?**

**Response:** We disagree with the Board’s view that all governmental entities should be required to report financial projections and related narrative discussions. There is concern that the smaller entities will lack the resources and necessary expertise to prepare reliable financial projections. Additionally, smaller

entities may not prepare budgets for a five-year period. Thus, if adopted, the Board should consider making this effective for larger entities and providing an exemption for smaller entities with the option to adopt if they so desire. We would suggest that entities with less than \$10 million in revenue be exempted and have the option but not requirement to adopt the provisions of this standard.

**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?**

**Response:** We believe that if adopted, a phase-in period for implementing the reporting requirements for financial projections and related narrative would be appropriate. However, as we noted in our response to Question 7, we would recommend that the Board consider exempting smaller entities, with the option to adopt if they so desire. If adopted, we feel that a phase-in, such as the one that was applied in adoption of GASB 34 would be appropriate and would provide for three phase-in periods for entities depending upon their total annual revenues.

In conclusion, we understand and appreciate the effort the Board has made to address public concerns regarding information that would allow users of government financial statements to better assess a government's financial health and sustainability. However, as noted in our general comments, we believe that the financial projection methodology proposed by the Board is conceptually flawed.

Again, the VSCPA appreciates the opportunity to respond to this exposure draft. Please direct any questions or concerns to VSCPA Government Affairs Director Emily Walker at [ewalker@vscpa.com](mailto:ewalker@vscpa.com) or (804) 612-9428.

Sincerely,

Jamie C. Wohlert, CPA  
2011–2012 Chair  
VSCPA Accounting & Auditing Advisory Committee