

Comments on Preliminary Views of the GASB

Economic Condition Reporting: Financial Projections

- 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?**

No, a governmental entity's fiscal sustainability should not be based on projected data, but actual historical data that can be audited. No one can predict the future with certainty; therefore, basing this measurement on projected data would more than likely create an atmosphere of uncertainty & speculation. This would lead to confusion for the financial statement reader and governmental entity management. Financial statements have been and should be based on historical, accurate data that is inherently certain.

Components 1 & 2 as outlined in the Preliminary View are more budgeting and planning documents than accounting. Component 3 would have high levels of uncertainty since financial obligations related to OPEB, compensated absences, and pensions would be difficult to project with any accuracy due to the ever-changing employee mix within any institution due to unplanned retirements, resignations, or terminations. Component 4 is already disclosed in the footnotes. Including this component again as RSI would create duplication of effort for accounting departments and auditors in an environment where timely preparation and issuance of audited financial statements is already an issue that most governmental entities and their auditors struggle. Component 5 could be achieved through expansion of related party disclosures.

- 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, paragraph 2-7). Do you agree with this view? Why or why not?**

No, audited financial statements should not have reports that are primarily projections based on assumptions. Most governments operate on budgets that are not known until the legislature passes them (which sometimes occur after the fiscal year which is being budgeted has already started). These budgets are usually done for only one year at a time. Doing 5 year projections on only known events or conditions would ignore the potential volatility of the annual budgetary process and would lack reliability for decision-makers. Paragraph 5 of Chapter 4 states that projections based on historical information is currently done in budgeting and planning. This is because projections are budgeting and planning and not accounting. Merriam-Webster defines accounting as "the system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results." Reporting projections is not recording or summarizing business and financial transaction; therefore, it doesn't fit the definition of accounting. It could be argued that GASB should not be setting standards for components that do not fit the definition of accounting. GASB should evaluate whether its scope of work in this preliminary view is starting to become outside the realm of accounting.

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- 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?**

No, if projections are deemed to be within the scope of GASB, then the cash or accrual basis should be consistently applied for all projections. We would lean toward the cash basis since fiscal sustainability should be based on whether a governmental entity has the cash to fund operations, capital projects, and debt service payments in the near future.

- 4. The Board's preliminary view is that identification and development of assumptions for making financial projections should be guided by a principle-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?**

Yes, if projections are deemed to be within the scope of GASB, this approach would be consistent with other accounting guidance. As stated earlier, audited financial statements should not have schedules that are primarily based on assumptions; however, if these schedules were deemed appropriate by GASB, then a consistent approach for identification and development should be established and the assumptions should be disclosed.

- 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?**

Yes, if it was deemed appropriate to have projections included in audited financial statements, then 5 years would be a reasonable time; however, as stated in my answers to question 2, most governments operate on budgets that are not known until the legislature passes them. These budgets are usually done for only one year at a time. Doing 5 year projections on only known events or conditions would ignore the potential volatility of the annual budgetary process and would lack reliability for decision-makers. We do agree with the discussion points that support this 5 year span in paragraphs 21 & 22 of Chapter 4, but we have reservations regarding the reliability of the information if it is presented.

- 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 of economic context and therefore should be required and communicated as required supplementary information. Do you agree with this view? Why or why not?**

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No, the basic financial statements and notes to the basic financial statements were already a good measurement for fiscal sustainability; therefore, the components are useful, but not essential for placing the basic financial statements and its notes in an appropriate operational or economic context. Therefore, if projections are deemed within the scope of GASB, they should be presented as supplementary information, if at all.

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?

Yes, if projections are deemed within the scope of the GASB and appropriate to present within audited financial statements, then in order to promote consistency and comparability between governmental entities, we agree that all government entities should be required to report financial projections and related narrative discussions.

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?

Yes, if projections are deemed within the scope of the GASB and appropriate to present within audited financial statements, a phase-in period would be most appropriate and would ease the difficulty of implementation of auditors, consultants, and the governmental entities.

Other Comments

We agree with most of the remarks stated in the Alternative View outlined in Chapter 6; however, we believe the projections discussed in the Preliminary Views are planning and budget information and not accounting information. We do not believe that the development of forward-looking financial information is within the scope of the GASB and we do not believe it is appropriate for the Board's agenda. We do agree that this information can fit the definition of "subjective assessments of the effects of reported information on the reporting units future financial position..."; therefore, it should not be presented as required supplementary information.

The language in the cautionary notice in paragraph 28 of Chapter 5 of the preliminary view can be interpreted as telling the financial statement reader that the projections being presented are not reliable due to the uncertainties inherent in their calculation. Therefore, we don't believe presenting this information to the financial statement reader helps in the decision-making process or would be of any benefit.