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March 16, 2012

Sent via email to director@gasb.org

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

RE: Project No. 13-3 Economic Condition Reporting: Financial Projections

Dear Members of the GASB:

This letter is in response to the Preliminary Views ("PV") document titled "Economic Condition Reporting: Financial Projections." We appreciate the opportunity to participate and comment as part of this important process.

Travis County strongly disagrees that including financial projections in the Comprehensive Annual Financial Report ("CAFR") will aid users in assessing an entity's overall economic condition and fiscal sustainability. Although we agree with the intent to provide useful, accurate information to users of financial statements, we feel that GASB's methodology proposed in the PV is overstepping its bounds and is once again moving away from the focus and scope of accounting and financial reporting.

Reliance on statements

A major issue with providing financial projections in a venue such as the CAFR is that users will most likely rely upon this data as if it were the most likely outcome. The required supplementary information ("RSI") section is unaudited but currently only provides current and historical information to the readers of the CAFR. We acknowledge the proposed cautionary notice that states "readers are cautioned that actual future financial results . . . may be significantly different from the financial projections that are reported" but feel the location and appearance will have a greater influence upon the reader in relying on their validity and accuracy.

In Chapter 1, paragraph 5, the PV states "Current annual financial reports do not provide adequate information to users regarding the financial stress facing some governmental entities due to deteriorating financial conditions. This deterioration would be made clearer by reporting comprehensive forward-looking information." We disagree that current financial information does not provide the data needed to inform the user of any financial distress. The statistical tables display ten years of comparative data. If there has been financial

Comments on GASB's Preliminary Views
March 16, 2012
Page 2 of 4

stress on any particular entity, it would most likely be reflected in this data. No governmental entity would be able to predict an unexpected significant financial impact to include in its forward-looking statements such as the financial crisis in 2008. Therefore, a steady decline is all that can be predicted and should be reflected in the current statistical data already provided.

Projection variances

Consistency is a topic that is not readily addressed in this PV. Projections can and probably will change significantly year over year due to new legislation and changes in appraised tax bases among other economic factors. Will we be required to explain fluctuations between projections in each CAFR? The explanation may not be readily available in the stated assumptions leading to further questions and more confusion for the readers of the financial statements.

Forecasting issues

Political agendas, new legislation, and tax rates can all have unexpected effects on projected revenues and expenditures for any given year. In addition, elected officials in the governing body can change year to year, and with that there can be a change in philosophy opposite to the political ideology currently in place rendering any forecasts invalid.

While we are opposed to including assumptions in forecasts that have not been approved by the governing body, we do not believe that historical trends are always the best basis for forecasting. The recent housing crisis has proven that using a five year historical trend in predicting future property tax valuations (as shown in Illustration 5 of the PV) does not necessarily give the most accurate portrayal of future outcomes. In addition, governments may be hesitant to project an increase in taxes, even if that is the trend, especially if constituents are sensitive to increases in taxes and promises have been made in response.

In Chapter 3, paragraph 3, the PV states "...the projections of cash outflows would include future annual principal and interest payments of those bond obligations that have been authorized and not yet issued but expected to be issued during the projection period." The governing body for Travis County has sole discretion regarding the issuance of new debt. New debt is issued in accordance with the current needs of the County and is reviewed on a yearly basis during the budget process. Voters have previously authorized debt, but it is up to the governing body to determine when to approve and issue debt. We do not believe it is appropriate to publish forecasted amounts with assumptions that have not been approved by the governing body.

Cost/Benefit

In the current economic climate, many governments are not able to expand their resources. Preparing financial projections in a new, GASB prescribed format, will most likely add countless man hours to the CAFR preparation process. We do not believe the added benefit, if any, will outweigh the additional cost of preparing such statements.

Comments on GASB's Preliminary Views
March 16, 2012
Page 3 of 4

In addition to increased costs, the additional time needed to prepare these projections will definitely affect the ability to meet current filing deadlines. This contradicts a portion of GASB Concepts Statement No. 1, *Objectives of Financial Reporting*, which states "If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions...In some instances, timeliness may be so essential that it may require sacrificing a certain amount of precision and detail." Preparers will definitely require additional time to coordinate with other offices/departments to obtain the data necessary to prepare projections.

Current information available

Although there are currently no financial projections included in the CAFR, there are various sections that provide forward-looking information to help users assess the entity's short-term financial condition. Management's Discussion and Analysis ("MD&A") and the Letter of Transmittal both contain forward looking budgetary information, and the notes to the financial statements contain disclosures related to future long-term debt obligations. Also as previously mentioned, the statistical section displays ten years of past financial and economic data that reflect the entity's fiscal sustainability.

In addition, legal documents published for debt issuances contain forward looking financial and debt information. We feel that what is currently available for public consumption gives a more than adequate view of the economic condition of Travis County and our fiscal sustainability.

Answers to specific questions in PV

Overall, we do not agree with the methodology as presented in the PV. We have replied to a selection of the Questions for Respondents where we felt further discussion was warranted.

Question 3 – The Board's preliminary view is that inflow 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 2-7). Do you agree with this view? Why or why not?

First, we do not agree that financial projections should be included in the CAFR. That being said, there are potential complications with mixing the bases of accounting in one group of statements. The budgetary schedules currently required in RSI are prepared on the modified accrual basis. This PV proposes the cash basis and the full accrual basis of accounting be added to RSI as well. We believe this will cause confusion for users of the CAFR in ascertaining what has and has not been approved by the governing body. The projections of cash inflows and outflows statement has major funds broken out separately (similar to the basic financial statements), but it would be extremely difficult to try and compare them due to the difference in the bases of accounting and the proposed format.

Comments on GASB's Preliminary Views
March 16, 2012
Page 4 of 4

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 (Chapter 5, paragraphs 7-12). Do you agree with this view? Why or why not?

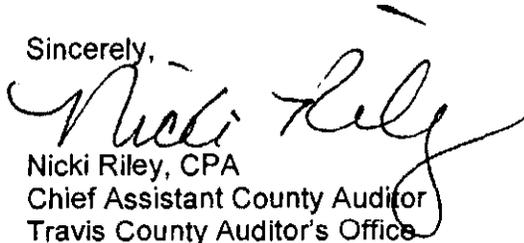
We do not agree. As previously mentioned, all other information currently found in RSI is current or historical in nature, and including projections within that context would incorrectly lead readers to assume their accuracy and eventual occurrence. We believe the decision should be left to the individual governmental entity as to if, when, and in what context they should publish projections for public consumption.

Conclusion

We do agree with the Alternative View in that financial projections should not be required as RSI in the CAFR. We do not agree that the development of forward-looking financial information is within the scope of the GASB and is appropriate for the Board's agenda. The goal of new pronouncements should be to enhance and clarify financial information so that potential users can increase their understanding of how their government operates and if it is performing in an acceptable manner. We believe including forward-looking statements within the CAFR will cause the public to erroneously rely on the projections and underlying assumptions. This could mislead users to believe governments have committed to promises they are not ready or legally able to make.

Thank you for allowing us the opportunity to comment on the PV. Please do not hesitate to contact me if you have any questions or need further clarification on the comments above at 512-854-9125.

Sincerely,



Nicki Riley, CPA
Chief Assistant County Auditor
Travis County Auditor's Office