NO. 13-3 | NOVEMBER 29, 2011

Governmental
Accounting Standards Series

Preliminary Views

of the Governmental Accounting Standards Board

on major issues related to

Economic Condition Reporting: Financial Projections

The GASB requests comments by March 16, 2012.

GASB

Governmental Accounting Standards Board
of the Financial Accounting Foundation

ECONOMIC CONDITION REPORTING: FINANCIAL PROJECTIONS

Notice of Public Hearings and Request for Written Comments

Public hearings:

March 29, 2012. The hearing will be held at the Courtyard by Marriott/LAX Century Boulevard, 6161 W. Century Boulevard, Los Angeles, CA, beginning at 8:30 a.m. PDT.

April 17, 2012. The hearing will be held at the LaGuardia Plaza Hotel, 104-04 Ditmars Boulevard, East Elmhurst, New York, beginning at 8:30 a.m. EDT.

Deadline for written notice of intent to participate in the public hearings:

March 16, 2012

PUBLIC HEARINGS

Basis for public hearings. The GASB has scheduled the public hearings to obtain information from interested individuals and organizations about the issues discussed in this Preliminary Views. The hearings will be conducted by one or more members of the Board and its staff. Interested parties are encouraged to participate at the hearings and through written response.

Public hearing oral presentation requirements. Individuals or organizations that want to make an oral presentation in person or by telephone at a public hearing are required to provide, **by March 16, 2012,** a written notification of that intent and a copy of written comments addressing the issues discussed in this Preliminary Views. The notification and written submission should be addressed to the Director of Research and Technical Activities, Project No. 13-3, and emailed to director@gasb.org or mailed to the address below. The notification should indicate a preference for participating in person or via telephone. The public hearings may be canceled if sufficient interest is not expressed by the deadline.

The Board intends to schedule all respondents who want to make oral presentations and will notify each individual or organization of the expected time of their presentation. The time allotted each individual or organization will be limited to about 30 minutes—10 minutes to summarize or elaborate on the written submissions, or to comment on the written submissions or presentations of others, and 20 minutes to respond to questions from those conducting the hearing.

Observers. Observers are welcome at the public hearings and are urged to submit written comments.

WRITTEN COMMENTS

Deadline for submitting written comments: March 16, 2012

Requirements for written comments. Any individual or organization that wants to provide written comments but does not intend to participate in the public hearings should provide those comments by **March 16, 2012.** Comments should be addressed to the Director of Research and Technical Activities, Project No. 13-3, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public files. Written comments and transcripts of the public hearings will become part of the Board's public file and will be available for inspection at the Board's offices. Copies of those materials may be obtained for a specified charge. The GASB will make all comments publicly available by posting them to the Projects portion of its website.

Orders. Any individual or organization may obtain one copy of this Preliminary Views on request without charge until March 16, 2012, by writing or phoning the GASB Order Department. For information on prices for additional copies and copies requested after that date, please contact the Order Department. The Preliminary Views also may be downloaded from the GASB's website at www.gasb.org.

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Preliminary Views
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Economic Condition Reporting: Financial Projections

November 29, 2011

Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

CONTENTS

Notice to Recipients

The Governmental Accounting Standards Board (GASB) is responsible for developing standards of state and local governmental accounting and financial reporting that will (1) result in useful information for users of financial reports and (2) guide and educate the public, including issuers, auditors, and users of those financial reports.

The due process procedures that we follow before issuing our standards are designed to encourage broad public participation in the standards-setting process. As part of that due process, the GASB is issuing this Preliminary Views to solicit comments on the Board's proposals on major issues of reporting financial projections and related narrative discussions by governmental entities.

This Preliminary Views is a step toward an Exposure Draft of a Statement of Governmental Accounting Standards but is *not* an Exposure Draft. A Preliminary Views is a Board document designed to set forth and seek comments on the Board's current views at a relatively early stage of a project. This document presents the Board's preliminary views on reporting financial projections and related narrative discussions by governmental entities and discusses the concepts, purposes, and objectives related to the Board's proposal. A Preliminary Views generally is issued when the Board anticipates that respondents are likely to be sharply divided on the issues or when the Board itself is sharply divided on the issues. Because the Board anticipates that respondents likely will express a range of differing views on major issues associated with the reporting of financial projections and related narrative discussions, it believes that a Preliminary Views, rather than an Exposure Draft, is appropriate. Although some Board members may disagree with certain aspects of the Preliminary Views and some may feel more strongly about certain provisions than others do, this Preliminary Views represents the majority of the Board's current views on the issues discussed in this document. An alternative view also is presented with this Preliminary Views.

We invite your comments on all matters in this Preliminary Views, especially those addressed in the questions on the following pages. Respondents are requested to give their views only after reading the entire text of this Preliminary Views and all of the questions. Because guidance proposed in this Preliminary Views may be modified before it is issued as an Exposure Draft, it is important that you comment on any aspects with which you agree, as well as any with which you disagree. To facilitate our analysis of the responses to this Preliminary Views, it would be helpful if you explain the reasons for your views, including alternatives that you believe we should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during deliberations leading to a future due process document. Only after the Board is satisfied that all alternatives have adequately been considered, and modifications, if any, have been made will a vote be taken to issue an Exposure Draft. The Board also will seek and consider comments on any future due process documents before proceeding to a final Statement.

Questions for Respondents

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):

- 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?

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?

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?

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?

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?

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?

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?

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 (Chapter 5, paragraph 14)?

Summary

This Preliminary Views presents the Board's current views on what it believes are the most fundamental issues associated with the reporting of financial projections and related narrative discussions that will assist users in assessing a governmental entity's economic condition. The Board's intent is to obtain comments from constituents before developing more detailed proposals for potential new standards.

The Board believes that decision makers need information with which to assess a government's *economic condition*—its financial position, fiscal capacity, and service capacity. Fiscal sustainability is the forward-looking aspect of economic condition. Fiscal sustainability is defined as a government's ability and willingness to generate inflows of resources necessary to honor current service commitments and to meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits.

The Board's preliminary view is that five components of information are necessary to assist users in assessing a governmental entity's fiscal sustainability:

- 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
- 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
- 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
- Projections of annual debt service payments (principal and interest)
- Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies.

Financial projections would be (1) based on current policy, (2) informed by historical information, and (3) 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. Inflows and outflows would be projected on a cash basis of accounting, and financial obligations would be projected on an accrual basis of accounting.

The assumptions employed in making projections would be based on relevant historical information, as well as events and conditions that have occurred and affect the projection periods. The assumptions would be (1) consistent with each other (where appropriate) and with the information used as the basis for the assumptions and (2) comprehensive by considering significant trends, events, and conditions. Disclosure of assumptions would be required. Further, annual financial projections would be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting.

All of the components of fiscal sustainability information are believed to be essential for placing the basic financial statements and notes to the basic financial statements in an

operational or economic context and therefore would be required and communicated as required supplementary information (RSI). All governmental entities would be required to report the components of fiscal sustainability information.

The components of fiscal sustainability information would be reported for the primary government, including both governmental activities and business-type activities with net subtotals (inflows less outflows) for the general fund, other governmental activities, total governmental activities, total business-type activities, and a net total for the entire primary government. Notes to RSI would be necessary in instances when one or more activities may significantly affect (positively or negatively) the fiscal sustainability of the primary government.

An individual cash inflow, cash outflow, and financial obligation of a governmental or business-type activity would be separately projected if it is considered "major"—meaning, it represents at least 10 percent of total cash inflows, total cash outflows, or total financial obligations, respectively, for all activities of that type in any of the projection periods reported. All cash outlays for capital and capital-related cash inflows from bond proceeds, capital grants, or other sources restricted or committed to capital outlays would be considered major and reported separately. Any other cash inflow, cash outflow, or financial obligation may be reported as major if the government believes that information is particularly important to users when making an assessment of the primary government's economic condition, including fiscal sustainability. Determining which intergovernmental service interdependencies are major is a matter of professional judgment.

Finally, it is important to note that projections based on current policy do not represent a forecast or a prediction of the most likely outcome. Financial projections may be based upon assumptions regarding changes in social, economic, and demographic events and conditions that are inherently subject to uncertainties. Therefore, a cautionary notice would precede the displayed financial projections and related narrative discussions advising readers that actual results may vary from the financial projections reported.

How the Changes Proposed in This Preliminary Views Would Improve Financial Reporting

The GASB's research shows that users believe that the comprehensive annual financial report contains most, if not all, of the information needed to assess financial position; however, it is missing much of the information about the other aspects of economic condition—fiscal capacity and service capacity. The reporting of financial projections and related narrative discussions would address many of the additional information needs of users, as well as their need to have access to this type of information collectively in one report.

Financial statement users are not concerned solely with how a government has performed financially in the past. Rather, historical financial information is a foundation upon which users base judgments about a government's continuing financial health in the future. Projections of inflows and outflows of resources are essential to assessing interperiod equity—a government's ability to meet annual spending needs with current-period resources, rather than pushing costs off to the future or consuming accumulated past resources. Projections of financial obligations such as bonds and unfunded pension liabilities reflect the future financial impact of a government's past decisions and help users to evaluate a government's capacity to meet those financial demands as they come due.

CHAPTER 1—OBJECTIVES AND BACKGROUND

Objectives of This Project

1. GASB research indicates that although users of state and local government financial reports consider it important to understand a government's past and current economic condition, including how the government arrived at its current status, research participants stated that they also need additional forward-looking information to assist them in assessing a governmental entity's future financial viability or fiscal sustainability. In other words, based on the information currently available to them, users may not be able to assess a governmental entity's *ongoing* ability to generate resources and meet financial obligations and service commitments.

2. The objectives of the GASB's project on financial projections are to:

a. Compare the information that users identify as necessary for making an assessment of a governmental entity's ongoing economic condition with the information they currently can obtain
b. Determine whether additional guidance should be established for reporting the information that users cannot currently obtain and how that information should be communicated
c. Establish guidance, if necessary, for additional information about economic condition, particularly financial projections and related narrative discussions, as part of general purpose external financial reporting (GPEFR).[1]

Project Background and GASB Research

3. Concepts Statement No. 1, *Objectives of Financial Reporting*, paragraph 35, describes the information needs of users, including forward-looking information: "Investors and creditors need information about available and likely future financial resources, actual and contingent liabilities, and the overall debt position of a government to evaluate the government's ability to continue to provide resources for long-term debt service." Concepts Statement 1 also includes reference to a future orientation for financial reporting information in the objectives of financial reporting when it states in paragraph 79, "Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due." In other words, financial reports should provide information that can help users assess the likelihood that the government will be able to continue providing the same type and level of public services and also to assess whether financial burdens without commensurate related benefits will be shifted to future taxpayers.

4. The use of financial projections is not new to annual financial reports. Consistent with the Concepts Statements, accounting and financial reporting currently requires the

[1]GPEFR will be used for both *general purpose external financial reporting* and *general purpose external financial reports.*

reporting of financial information that is based on projections. While the projections themselves are not displayed in the financial statements, the information reported is based on projections that are informed by assumptions about the future, such as (a) the projection of estimated useful lives when determining current-period depreciation expense for capital assets, (b) the projected future costs of closure and postclosure care for landfills and pollution remediation reported as a liability in the current period, and (c) the projected future benefit payments for pension and other postemployment benefits (OPEB) that are discounted to an actuarial present value for the current-period calculation of the actuarial accrued liability. Financial statement disclosures also include forward-looking information related to projections of financial obligations such as future debt service for variable rate debt, lease payments, and variable cash flows associated with a swap derivative instrument.

5. Reporting financial projections addresses an important financial reporting issue. 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. An important objective of financial reporting is to assist users in their decision making about the future. Projections are consistent with that objective. An assessment that users may draw from financial statements is whether the government is expected to continue as a going concern for the foreseeable future. However, the current financial reporting requirements do not adequately provide a comprehensive view of relevant forward-looking information. Forward-looking information is necessary for users to assess a government's ability to continue to provide services and to meet its financial obligations as they become due.

6. This project represents the third phase of a long-term project on economic condition reporting. The first phase consisted of an extensive literature review. The second phase resulted in the issuance of Statement No. 44, *Economic Condition Reporting: The Statistical Section*, in May 2004, and focused on the then-existing reporting of economic condition information. The current phase of the project examines the other information needed by users to assess economic condition, specifically the fiscal sustainability of a governmental entity. This other information needed by users is identified in this Preliminary Views as financial projections and related narrative discussions.

7. The research for the current phase of the project began in 2009 and included roundtable discussions and telephone interviews with various types of users. Users participating in the roundtables and interviews identified the information they consider necessary for assessing the fiscal sustainability of a governmental entity and where they currently obtain this information, if available. The information identified was categorized by users and focuses on:

a. A governmental entity's ability to generate necessary future resources
b. A governmental entity's ability to maintain or improve the delivery of public services
c. A governmental entity's ability to meet financial obligations
d. A governmental entity's ability to achieve intergenerational equity

e. Potential effects of interdependencies that exist between various governmental entities
f. Potential effects of the underlying economy
g. Potential effects of changing demographics
h. Political ability and willingness of a governmental entity to make decisions that will keep it fiscally sound.

8. Participating users agreed that having access to information that addresses these eight categories would provide a basis for their assessment of a governmental entity's fiscal sustainability. Users stated that this information is not readily available and that if it is available, it is presented in disparate documents and is difficult to locate. Users also stated that available information often is of varying degrees of detail and is difficult to comprehend for their use in assessing a governmental entity's fiscal sustainability. Further, users stated that information needs to be presented in a single source, document, or location.

9. Research for this phase of the economic condition reporting project also identified some governmental entities that currently report fiscal sustainability information. The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards (SFFAS) 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government,* in September 2009. This Statement currently requires the federal government and its agencies to report prospective information about receipts and spending, the resulting debt, and how these amounts relate to the economy as required supplementary information (RSI).

10. Some state and local governments currently report fiscal sustainability information in separately issued reports. For example, one local government, issues a 10-year "Long Range Report" that "takes a forward look at the City's General Fund revenues and expenditures. Its purpose is to identify financial trends, shortfalls, and issues so the City can proactively address them. It does so by projecting the future fiscal results of continuing the City's current service levels and policies, and providing a snapshot of what the future will probably look like as a result of the historic trends and decisions made in the recent past." An example at the state level includes a "Financial Condition Report" that focuses on selected financial, economic, and demographic historical trends but includes a section titled *Implications for the Future*, which presents forward trends over a five-year period. The report is, "Aimed at assessing the ability of a government to meet current and future financial and service obligations. It deals with the State's ability to deliver acceptable levels of services at acceptable levels of taxation, while achieving budget balance and making required debt service payments and pension contributions."

11. From June 2010 through November 2011, the Board discussed the various issues related to the objectives of this project. These discussions included consideration of the research from all three phases of the economic condition reporting project, as well as feedback received from members of the project task force—comprising 17 preparers, auditors, and users that broadly represent the GASB's constituency. In addition, the Board regularly has sought the input of the members of the Governmental Accounting Standards Advisory Council on project developments and has considered their feedback during

project deliberations. The decisions reached by the Board through this process form the preliminary views included in this document.

Objective of This Preliminary Views

12. The objective of this Preliminary Views is to present the Board's current views on what it believes are the most fundamental issues related to economic condition reporting: financial projections in order to obtain feedback from constituents. This feedback will be considered by the Board in its deliberations, which may lead to issuance of proposed standards.

13. In addition to presenting the Board's preliminary views, this document includes discussion of the underlying reasons for their decisions. The Board's deliberations were guided by a number of key concepts, including:

- The objectives of financial reporting, particularly accountability, decision usefulness, and interperiod equity (Concepts Statement 1)
- The various users of financial condition and financial position information in GPEFR (Concepts Statement 1)
- The appropriate methods of communicating information in GPEFRs that contain basic financial statements (Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements*)
- The pervasive constraint of costs versus benefits when reporting financial information (Concepts Statement 1).

14. This document also includes illustrations (appendix) to enhance the understanding of the Board's preliminary views. The inclusion of these illustrations is for demonstrative purposes only and does not represent the endorsement by the GASB of any particular method of presentation.

Effects of the Board's Preliminary Views on Current Standards

15. The preliminary views presented in this document, with further development or modification in subsequent due process documents, could modify current standards of accounting and financial reporting. However, descriptions of how the preliminary views would supersede or amend specific paragraphs of existing, authoritative standards would be premature. Therefore, specific proposed amendments of existing standards are not presented in this document.

CHAPTER 2—DEFINING ECONOMIC CONDITION AND FISCAL SUSTAINABILITY

Definition of Economic Condition

1. The earlier phases of the economic condition reporting project discussed in Chapter 1 utilized a tentative definition of economic condition that was developed in the project that led to the issuance of Concepts Statement 3. The tentative definition was subsequently considered in the development of Statement 44. The Board determined that it is necessary to formally define economic condition in pursuing the project's objective of identifying the information users need to assess a governmental entity's economic condition.

2. **The Board's preliminary view is that the definition of economic condition should be as follows:**

> **Economic condition is a composite of a government's financial position, fiscal capacity, and service capacity.**
>
> **a. Financial position is the status of a government's assets, deferred outflows, liabilities, deferred inflows, and net position, as of a point in time.**
> **b. Fiscal capacity is the government's ability and willingness to meet its financial obligations as they come due on an ongoing basis.**
> **c. Service capacity is the government's ability and willingness to meet its commitments to provide services on an ongoing basis.**

3. The definition in the preliminary view clarifies certain notions and terms in Concepts Statement 1. The definition more fully explains what is meant by the term *economic condition*.

4. The definition of economic condition includes a government's *ability,* as well as its *willingness,* to meet financial obligations and service commitments. The distinction between ability and willingness is considered important because a governmental entity may have adequate financial and physical capacity to meet its financial obligations and service commitments, yet be unwilling to do so. Thus, in order to assess economic condition, users need information regarding both ability and willingness.

The Relationship of Fiscal Sustainability to Economic Condition

5. **The Board's preliminary view is that economic condition and fiscal sustainability are related and that economic condition is broader than fiscal sustainability. Fiscal sustainability is the forward-looking aspect of economic condition.**

6. The reporting of fiscal sustainability information is one method by which fiscal capacity and service capacity information (and, to some extent, financial position

information) may be communicated to help users assess a governmental entity's financial health in a comprehensive manner. Fiscal sustainability shares basic attributes with fiscal capacity and many of those of service capacity. Fiscal sustainability is *forward looking.* However, this forward-looking attribute does not distinguish fiscal sustainability from economic condition. On the contrary, fiscal capacity and service capacity, although measured at a specific point in time (or, alternatively, for a specific period), are intended to provide users with information to assess aspects of a governmental entity's financial health going forward.

Definition of Fiscal Sustainability

7. Currently, there is no generally accepted definition of fiscal sustainability. Fiscal sustainability has been defined in a variety of ways by various standards setters, national governments, other organizations, and policy makers. These various formal or working definitions, as well as definitions provided by participants in the GASB's research, were considered in the development of an appropriate comprehensive definition applicable to state and local governments.

8. **The Board's preliminary view is that the definition of fiscal sustainability should be as follows:**

> **Fiscal sustainability is a government's ability and willingness to generate inflows of resources necessary to honor current service commitments and to meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits.**

9. This definition encompasses most of the themes identified by the Board. The definition first addresses the issue of the generation of inflows of resources and their sufficiency to finance outflows of resources. Reporting on the generation of inflows of resources is important because it describes the amount of resources a government has available to finance the provision of services and satisfy financial obligations, as well as the sources of those resources. The balance between inflows and outflows of resources is important because a continuing excess of outflows over inflows of resources might result in the need to accumulate debt or other financial obligations, reduce services being provided, or utilize accumulated resources to pay for ongoing costs. The balance (or imbalance) between inflows of resources and outflows of resources is a key indicator of the sustainability of a governmental entity's fiscal path.

10. This definition also addresses meeting service commitments and financial obligations both currently and in the future. The purpose of a governmental entity is to help maintain and improve the well-being of its citizens by providing services. A governmental entity's ability to continue providing services speaks to the governmental entity's fiscal sustainability. A governmental entity also is responsible for meeting its financial obligations as they come due. Therefore, whether a governmental entity is meeting its financial obligations is important to users for their assessment of a governmental entity's fiscal sustainability.

11. The final part of this definition recognizes the importance of the concepts of *interperiod equity* and *intergenerational equity.* Interperiod equity refers to the degree to which a government raises sufficient resources in each reporting period to cover that reporting period's costs, versus shifting costs into future years, consuming resources accumulated in past years, or accumulating resources in the current year. Intergenerational equity essentially extends interperiod equity over the long term—it concerns the degree to which each generation raises sufficient resources to finance the services it receives, versus shifting the costs of those services onto future generations or consuming resources acquired from prior generations. The definition asserts that deferring costs, service commitments, or financial obligations and living off past resources may be inconsistent with balancing inflows and outflows of resources and meeting service commitments and financial obligations *on an ongoing basis.*

CHAPTER 3—COMPONENTS OF FISCAL SUSTAINABILITY INFORMATION

Identifying Components of Fiscal Sustainability Information

1. The GASB's research identified eight broad categories of information that users consider necessary for assessing a governmental entity's fiscal sustainability (paragraph 7 of Chapter 1). To provide users with information from these categories that assists them in assessing a governmental entity's fiscal sustainability, components of information (financial projections and related narrative discussions) were identified by the Board. Although each component originated from one or more of the specific categories of information identified, a component may in fact provide information related to multiple categories. Specifically, the Board focused on identifying those components of information that it considers to be (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.

2. **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:**

a. **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**
b. **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**
c. **Component 3—Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, OPEB, and long-term contracts, with explanations of the known causes of fluctuations in financial obligations**
d. **Component 4—Projections of annual debt service payments (principal and interest)**
e. **Component 5—Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies.**

3. Four of the five components make reference to the term *major*. The Board's preliminary views on what constitutes major are discussed in Chapter 5. This Preliminary Views includes only four new components of fiscal sustainability information because projections of annual debt service payments (Component 4) are already required to be disclosed in the notes to financial statements. However, unlike the existing required note disclosures, 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. Further, the principal amount of debt obligations that were authorized but unissued as of the end of the reporting period

would be included in the projections of financial obligations if that debt was expected to be issued during the projection period.

Component 1—Projections of Cash Inflows

4. This component originated from the category of information identified by users participating in the GASB research as a governmental entity's *ability to generate necessary future resources* (paragraph 7a of Chapter 1). Source and mix of resources, nonrecurring resources, and resource volatility were identified in this research as information that users consider necessary for their assessment of a governmental entity's ability to generate future resources, represented by cash inflows. Component 1, projections of cash inflows, would provide users with the information needed to assess the current and future ability of a governmental entity to obtain necessary resources. Nonmajor cash inflows would be projected and reported in the aggregate.

5. The Board believes that projections of major individual and total cash inflows are important for providing users with a basis for assessing a governmental entity's ability to generate the financial resources necessary to honor its current service commitments and meet its financial obligations as they come due. These financial projections also would assist users in making an assessment of a governmental entity's ability to continue generating these cash inflows in the projection periods.

6. The Board believes that projections of major individual cash inflows (in dollars and as a percentage of total inflows) in comparison to the *total* cash inflows would provide users with the information they need to assess a governmental entity's reliance on one or more sources of cash inflows, rather than having a diversified stream of cash inflows. The Board determined that a governmental entity's reliance on limited sources of cash inflows does not necessarily indicate a lack of fiscal sustainability. Certain governmental entities normally have one or a few major sources of inflows. However, with information on the sources and mix of inflows, users can draw their own conclusions regarding the diversity of inflows and its potential implications for a governmental entity's fiscal sustainability.

7. Projections of major individual and total cash inflows over time would inform a user's assessment of volatility; changes in one or more major cash inflows might have a significant effect on a governmental entity's fiscal sustainability. The Board also believes that displaying individual cash inflows that qualify as major would include projections of nonrecurring and temporary sources of cash inflows if they are significant relative to total inflows. Information on major nonrecurring and temporary sources of cash inflows would assist users in determining if a governmental entity is financing ongoing cash outflows with nonrecurring cash inflows.

8. The Board believes that narrative discussions explaining the known causes of fluctuations in major individual cash inflows would assist users in understanding the reasons for these fluctuations and the potential implications they may have for a governmental entity's fiscal sustainability. The Board also believes that these explanations would provide users with a basis for assessing the reasonableness and reliability of the financial projections.

9. The Board also considered projections of the tax or revenue bases for major own-source cash inflows as a component of information necessary to assist users in assessing a governmental entity's fiscal sustainability—for example, assessed value of property for a government projecting a property tax. The Board determined that the tax or other revenue bases for major own-source cash inflows should be incorporated into the projections of the individual major cash inflows. The Board believes that fluctuations in the bases that affect a governmental entity's ability to generate individual major cash inflows (such as assessed value of property and retail sales) should be discussed within the explanations of the known causes of fluctuations in cash inflows as well as disclosed within the assumptions, if appropriate. In most instances, there is a direct relationship between the bases for cash inflows and the cash inflows themselves. For example, when assessed property values increase, the cash inflows from property taxes increase if the property tax rate remains constant.

Component 2—Projections of Cash Outflows

10. This component originated from the category of information identified by users participating in the GASB research as a governmental entity's *ability to maintain or improve the delivery of public services* (paragraph 7b of Chapter 1). Information on the need or demand for public services was identified in this research as information that users consider necessary for their assessment of a governmental entity's ability to honor current service commitments, represented by cash outflows. Component 2, projections of cash outflows, would provide users with information needed to assess the current and future ability of a governmental entity to honor current service commitments and meet its financial obligations as they come due. Nonmajor cash outflows would be projected and reported in the aggregate.

11. The Board believes that projections of major individual cash outflows should be presented by program or function. Alternatively, projections of major individual cash outflows may be presented by object (for example, salaries and wages, fringe benefits, contracts, and utility costs). The Board believes that stating that the projected cash outflows being reported may be those of the major programs and functions of the governmental entity is consistent with Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Further, the Board believes that allowing a governmental entity to present projected cash outflows on an object basis provides flexibility for a government from a cost–benefit standpoint in certain situations. Providing this alternative for projecting cash outflows may ease preparation for those governmental entities that already disaggregate cash outflows by object for other purposes.

12. The Board believes that projections of major individual cash outflows (in dollars and as a percentage of total outflows) in comparison to the *total* cash outflows would provide users with the information necessary to assess the financial demands that individual programs or functions (or objects) place on a governmental entity. Examining projections of major individual and total cash outflows over time would inform a user's assessment of the cash outflows necessary for a governmental entity to either continue providing major programs or functions or continue funding objects at current levels or at a level

established through an approved existing policy. The Board also believes that information on the cash outflows associated with the maintenance of infrastructure and capital assets should be included in the projections of cash outflows.

13. The Board believes that narrative discussions explaining the known causes of fluctuations in major individual cash outflows (including nonrecurring and temporary cash outflows) would assist users in understanding why there are fluctuations in these cash outflows and the potential implications they may have for a governmental entity's fiscal sustainability. The Board also believes that these explanations would provide users with a basis for assessing the reasonableness and reliability of the financial projections.

14. The Board also considered projections of levels of service for major programs and functions as a component of information necessary to assist users in assessing a governmental entity's fiscal sustainability. The Board determined that from a practical standpoint, the current levels of service for major programs and functions should be incorporated into the projections of the major cash outflows. The Board believes that fluctuations in the types and levels of major programs and functions that affect a governmental entity's major cash outflows should be discussed within the explanations of the known causes of fluctuations. The Board recognized the potential difficulty of developing and measuring projected information related to the need or demand for public services. Therefore, the Board concluded that the benefits to users of providing this information do not justify the additional costs associated with these potential projections.

Component 3—Projections of Financial Obligations

15. This component originated from the category of information identified by users participating in the GASB research as a governmental entity's *ability to meet financial obligations* and *its ability to achieve intergenerational equity* (paragraphs 7c and 7d of Chapter 1). Debt and debt service information, postemployment benefit information including pensions and OPEB, compensated absences, pollution remediation obligations, and information on contracts were identified in this research as information that users consider necessary for their assessment of a governmental entity's ability to meet financial obligations and achieve intergenerational equity, represented by major individual and total financial obligations. Component 3, projections of financial obligations, was determined by the Board to address comprehensively all of these specific financial obligations and to provide users with information to assess the ability of a governmental entity to meet its financial obligations as they come due. Nonmajor financial obligations would be projected and reported in the aggregate.

16. The Board recognizes that outstanding debt represents only one form of major long-term financial obligations that governmental entities incur. Therefore, the Board believes that providing projections of major *nondebt* financial obligations, such as unfunded actuarial accrued liabilities for pensions and OPEB, would assist users in evaluating whether funding is sufficient for those financial obligations, how much of a governmental entity's resources are needed to fund them, and what future requirements and obligations will be placed on a governmental entity as a result. Projections of financial obligations associated with major long-term contracts, such as for derivatives and leases, would assist

users in assessing how costs associated with those contracts may increase or decrease over time and their potential effects on a governmental entity's fiscal sustainability.

17. The Board believes that projections of total financial obligations would assist users in determining the magnitude of a governmental entity's financial obligations going forward. These projections would assist users in evaluating a governmental entity's ability to pay for its debt and other financial obligations over time, or whether it may need to consider changes (for example, reducing services or raising taxes) to meet their payment requirements.

18. The Board believes that projections of major individual and total financial obligations would provide users with a basis for assessing whether a governmental entity is deferring costs to future periods. For example, if financial obligations related to OPEB are increasing over the projection period, this may be an indication of a governmental entity not covering its total annual costs and deferring those costs to future periods. An increase in projected major individual and total financial obligations might indicate to users a greater demand for cash outflows to address these obligations in the projection periods.

19. The Board believes that narrative discussions explaining the known causes of fluctuations in major individual financial obligations would assist users in understanding the reasons for these fluctuations and the potential implications they may have for a governmental entity's fiscal sustainability. The Board believes that these explanations would provide users with information to assess the implications of those instances in which annual payments made for financial obligations do not equal the actual costs being incurred. The Board also believes that these explanations would provide users with a basis for assessing the reasonableness and reliability of the financial projections.

20. The Board also considered projections of key debt ratios and the cost to maintain capital assets as components of information necessary to assist users in assessing a governmental entity's fiscal sustainability. The Board believes that key debt ratios of the projections would provide users with an analysis of the reported information rather than being an essential component in and of themselves. Further, the Board believes that information that would assist users in assessing the condition of infrastructure and capital assets, the maintenance costs being deferred and consequently transferred to future periods, and the need for new infrastructure and capital assets, while important, is not currently available for most governmental entities. Therefore, the Board concluded that information on key debt ratios and condition and cost to maintain capital assets would not provide users with information that is sufficiently beneficial to warrant the additional costs associated with its development, measurement, and reporting.

Component 4—Projections of Annual Debt Service Payments

21. This component also originated from the category of information identified by users participating in the GASB research as a governmental entity's *ability to meet financial obligations* (paragraph 7c of Chapter 1). Annual debt service information was identified in this research as information that users consider necessary for their assessment of a

governmental entity's ability to meet financial obligations. Component 4, projections of annual debt service payments, was determined by the Board to provide users with information to assess a governmental entity's ability to meet these annual payments as they come due.

22. The Board believes that projections of annual debt service would provide users with a basis for assessing the magnitude of these payments in comparison to other ongoing cash outflows. These projections would assist users in assessing a governmental entity's ability to meet these annual debt service requirements as they come due and therefore its fiscal sustainability.

23. Statement No. 38, *Certain Financial Statement Note Disclosures,* already requires disclosure of future interest and principal components of annual debt service payments within the notes to the basic financial statements. Statement 38 requires disclosure of the minimum required debt service payments for each of the next five years individually and then in five-year increments thereafter until maturity. Statement 38 also requires disclosure of the terms by which interest rates change for variable-rate debt during the year. These projections provide users with information on the timing of future cash outflow requirements and whether there are any balloon payments due in the future or other unevenness in the annual debt service payments. In order for users to assess the amount of potential variability in debt service costs to which a governmental entity may be subject, the terms under which interest rates may change also are disclosed. However, Statement 38 does not require inclusion of future principal and interest for debt obligations that have been authorized but not yet issued at the end of the reporting period. Projections of annual principal and interest payments associated with these debt obligations would be included within the projections of cash outflows (Component 2) if a government expects to issue the authorized debt during the years projected. Further, the principal amount of the authorized but unissued debt obligations would be included in the projections of financial obligations starting at the expected issue date (Component 3).

Component 5—Narrative Discussion of Major Intergovernmental Service Interdependencies

24. This component originated from the category of information identified by users participating in the GASB research as the *potential effects of fiscal interdependencies that exist between various governmental entities* (paragraph 7e of Chapter 1). Resource and service interdependencies were identified in this research as information necessary for users to make an assessment of the effects of fiscal interdependencies between various governmental entities. The Board determined that information on *resource* interdependencies—cash inflows and outflows from one governmental entity to another governmental entity—would be included in the projections of cash inflows and outflows (Components 1 and 2). Therefore, Component 5, narrative discussion of major intergovernmental service interdependencies, focuses only on *service* interdependencies. The Board believes that this component would provide users with information to assess the fiscal implications of a major service interdependency and how changes in this major service interdependency may impact a governmental entity's fiscal sustainability.

25. The Board determined that, in order to provide a narrative discussion of major intergovernmental service interdependencies, it is first necessary to develop a working definition. The Board believes that an intergovernmental service interdependency exists when one governmental entity provides a service on behalf of another governmental entity or together with one or more governmental entities.

26. The Board believes that a narrative discussion of major intergovernmental service interdependencies would provide users with the information necessary to assess the magnitude of the service interdependencies that exist between governmental entities and the implications that these interdependencies may have on a governmental entity's fiscal sustainability. This narrative discussion would assist users in determining how changes in the level of services provided by another governmental entity may impact the level or cost to continue providing services to the reporting governmental entity's constituents. The Board also believes that due to the qualitative nature of and difficulty in measuring most intergovernmental service interdependencies, a narrative discussion of these relationships would be more cost beneficial than quantitative projections.

Other Board Considerations

27. The Board also considered components related to other categories of information identified by users participating in the GASB research as being useful for their assessment of a governmental entity's fiscal sustainability, but it ultimately decided not to include them as necessary components. The categories were (a) potential effects of the underlying economy, (b) potential effects of changing demographics, and (c) political ability and willingness of a governmental entity to make decisions that will keep it fiscally sound (paragraphs 7f–7h of Chapter 1, respectively).

28. Users who participated in the research expressed the view that the fiscal sustainability of a governmental entity depends on the underlying economy, including its diversity, its growth, the wealth-producing activities of its residential and commercial constituents, and its levels of employment. This reliance necessitates a high-level review of what economic forces, situations, and circumstances potentially could affect a governmental entity's ability to generate sufficient future resources, which directly relates to its ability to maintain or improve the delivery of public services and achieve intergenerational equity.

29. Information on changing demographics, such as income and education levels, population (including migration patterns), and age profiles also were identified by users during the project research as being an important component needed for their assessment of a governmental entity's fiscal sustainability. Long-term projections of the population level and diversity, which affects the population's need for services and its ability to contribute resources to the government, were identified as information that impacts a user's assessment of a governmental entity's fiscal sustainability. The literature review also found that in addition to total population, particular attention is given to population change and specific population characteristics. Whereas total population may offer an overall indication of spending needs, specific characteristics of the population may provide an indication of pressures for spending on particular kinds of government

services. For instance, a growing under-18 segment of the population may indicate an increasing need for elementary and secondary education.

30. To reflect a broader "overall environment" concept, these first two additional categories of information (economic and demographic) identified by users were combined into one category during the Board deliberations. The category discussed during the Board deliberations was the "potential effects of the underlying environment within which a government operates." The Board determined that from a practical standpoint, the underlying environment would be considered when projecting the individual major cash inflows and outflows. The Board believes that the underlying environment within which a governmental entity operates that affects their cash inflows and cash outflows should be discussed within the explanations of the known causes of fluctuations in cash inflows and outflows as well as disclosed within the assumptions, if appropriate. Therefore, the Board decided not to include this category as a component of information to be reported.

31. GASB research identified that the fiscal sustainability of a governmental entity is dependent upon its ability and willingness to make decisions that will keep it fiscally sound. A governmental entity's ability is determined by the legal and governmental structure and process by which it operates. A governmental entity's willingness is represented by the actions of elected officials and government managers that are within the parameters of these legal and governmental structures and processes.

32. The Board considered and decided not to require a discussion of the ability and willingness of a governmental entity to make decisions that will keep it fiscally sound. The Board believes that it would be difficult to measure in a consistent manner the current and historical willingness of a governmental entity and to determine how to use this information for providing a basis for projections. The Board also believes that actions demonstrating willingness that have occurred in the past provide no certainty that these actions will be taken in the future, making it even more difficult, if not impractical, to project a governmental entity's willingness.

33. The Board believes that a governmental entity's ability is represented by more objective means such as legislative policy, laws, and regulations. The Board also believes there are aspects of ability that reflect current conditions such as tax rate limits and caps on debt that may be objectively determined. Finally, the Board believes that some of this information is already included within the assumptions that support the projections of the five components of information identified in this chapter as being necessary to assist users in assessing a governmental entity's fiscal sustainability.

CHAPTER 4—PROJECTING FINANCIAL INFORMATION

1. In order to project Components 1, 2, and 3 (cash inflows, cash outflows, and financial obligations, respectively), the Board has determined that it is necessary to consider establishing guidance for (a) the basis and methodology for projections, (b) the basis of accounting for projected information, (c) the assumptions underlying the projections, and (d) the projection period. The basis and methodology for projecting financial information is the foundation for applying the assumptions in the projections. The basis of accounting is the approach used for recognizing what types of inflows, outflows, and financial obligations are included when making projections. The assumptions for projecting financial information are expectations about how key factors—such as the inflation rate and discount rate—will affect projections made with a given methodology. The projection period is the number of future periods for which the financial projections are reported.

Basis and Methodology for Projections

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 will not be effective until future periods.**

3. Several different bases and methodologies for making financial projections were discussed by the Board. In its discussions, the Board considered current policy, historical trend information, sensitivity analysis, and known events and conditions that affect the projection periods. The Board believes that the most relevant *projections* are those that are based upon known information that would influence future financial results. In order for information that informs the projections to be "known," it needs to be based on current policy, historical information, or conditions that exist as of the date of the report; otherwise, the financial projections could be considered to be *forecasts* or *predictions.*[2] The Board believes that it is not appropriate for financial projections to be based on forecasts or predictions. Projections based on current policy may be adjusted, however, to reflect events and conditions that are known as of the date of the report but that will not be effective until a future date within the projection periods.

4. For the purpose of reporting financial projections, current policy is defined as the present course of action formally adopted and pursued by a governmental entity through established laws, regulations, and administrative rules. The Board believes that policy changes that have been formally adopted by the end of the reporting period but will not be

[2]The American Heritage Dictionary defines *forecast* as "to calculate or estimate something in advance, predict the future." The American Heritage Dictionary defines *predict* as "to foretell what will happen; prophesy," and Webster's New World Dictionary further defines *prediction* as "to state what one believes will happen, to foretell a future event or events." The American Heritage Dictionary defines *projection* as "an estimate of what something will be in the future, based on the present trend or rate of change."

effective until future dates within the projection period are known conditions. These policy changes would include those of the reporting government as well as policy changes made by other governments that may affect the reporting government's financial projections. If the effect of a policy change is uncertain, and therefore not able to be included in the projections, a discussion of the policy change should be included in the narrative discussions that accompany the projections. Making financial projections based solely on current policy in effect as of the date of the financial statements, without change, would not take into consideration known policy changes effective in future periods that may influence the financial projections reported to a user and therefore their assessment of a governmental entity's fiscal sustainability.

5. Financial projections should be informed by historical information. Historical information is important because it provides known, actual results as the starting point for projections. Projecting information based on historical information is similar to traditional statistical modeling methods that utilize historical rates of change and extend these rates to the projection periods. This method is used currently by governmental entities in budgeting and planning and therefore may be readily understood by governments making financial projections and users assessing fiscal sustainability based on these projections.

6. Financial projections adjusted for known events and conditions allows for the consideration of changes that potentially have a substantial impact on the fiscal sustainability of a governmental entity. The Board believes that financial projections informed solely by historical trends would ignore effects that are known to exist and, therefore, result in improbable projections. Simply extending historical trends into future periods risks portraying an unrealistic depiction of what will happen. For example, if a convention center is currently under construction but scheduled to be completed in the following period, the associated cash inflows and outflows and financial obligations should be included in the projection periods. Consideration of known events and conditions that affect the projection periods is necessary in order to produce reasonable financial projections.

7. The Board recognizes that known future policy changes include a certain degree of subjectivity. However, financial projections, which are based on current policy informed by historical information and adjusted for known events and conditions that affect the projection periods, are no more subjective than the estimates and assumptions currently required to be included in annual financial reports.

Basis of Accounting for Projected Information

8. Current GASB standards require financial statements that are prepared on three bases of accounting—accrual, modified accrual, and cash. The government-wide financial statements and the proprietary and fiduciary fund statements of net position and changes in net position are required to be reported on the accrual basis of accounting. The governmental fund financial statements are required to be reported using a modified accrual basis of accounting. In addition, a statement of cash flows is required to be reported for all proprietary funds.

9. **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.**

10. The Board believes that projections of inflows and outflows prepared using the cash basis of accounting will provide users with information that will be useful when assessing fiscal sustainability. The Board also believes that as a practical matter, many governmental entities are already preparing these financial projections on the cash basis of accounting. The Board also is concerned that governmental entities may not have the additional resources needed to prepare projections of inflows and outflows on any other basis of accounting.

11. The Board believes that using the accrual basis of accounting when projecting financial obligations is necessary to provide users with more complete projected information on the financial obligations incurred by the governmental entity than if the cash basis of accounting was used.

12. The Board considered and decided not to require the modified accrual basis of accounting for use when projecting financial information. The Board noted that under the modified accrual basis of accounting, receivables and payables generally are only recognized if they are expected to be received or paid within an established period, for example, 60 days following the end of the reporting period. Outflows of resources associated with long-term liabilities are not reported under the modified accrual basis of accounting. Based on this reasoning, the Board believes that projections that utilize the modified accrual basis of accounting would not include all inflows or outflows of resources and financial obligations that are important to assessing fiscal sustainability.

Identification and Development of Assumptions

13. **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.** This approach would not, however, identify the specific assumptions that should be used by governments for making financial projections.

14. Financial projections are based, in part, on assumptions regarding trends, events, or conditions that affect the projection periods. Specifically, assumptions reflect how a government expects the key factors that affect financial projections to behave in the projection periods. In determining whether it was appropriate to establish the specific assumptions necessary for financial projections, the Board considered the guidance in Actuarial Standards of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations,* and No. 35, *Selection of Demographic and Other Noneconomic*

Assumptions for Measuring Pension Obligations, of the Actuarial Standards Board; Statement on Auditing Standards (SAS) No. 57, *Auditing Accounting Estimates,* of the American Institute of Certified Public Accountants (AICPA); and GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Board concluded that different assumptions may be appropriate for projecting information on the various components of fiscal sustainability information as well as for different governmental entities. As a result, the Board believes that a principles-based approach that provides a basis for governmental entities to use in identifying assumptions is most appropriate. This approach would allow governmental entities to use their professional judgment based on these principles in selecting the most suitable assumptions for the financial projections they report.

15. The Board believes that the proposed principles for selecting assumptions are consistent with the principles applicable in SAS 57, which provide guidance to auditors on obtaining and evaluating sufficient appropriate audit evidence to support significant accounting estimates. The Board believes that in order for the assumptions used in the financial projections to be considered reasonable, they should be consistent with each other, where appropriate. If not consistent, there should be a valid rationale for any difference. Without considering the reasons for any inconsistencies, the financial projections reported, if based on inconsistent assumptions, could provide misleading information to users, which could have adverse implications on their assessment of a governmental entity's fiscal sustainability.

16. The Board believes that by following the principles in this Preliminary Views, the assumptions are more likely to reflect historical trends and known events and conditions that affect the projection periods. For example, if cash inflows from property taxes have historically been increasing at 3 percent per year and there are no significant changes in a governmental entity's policies that will impact the collection of property taxes, then it would be inappropriate to project cash inflows from property taxes that significantly vary from 3 percent annual increases. However, if the governmental entity is aware of known conditions or events that indicate the 3 percent a year increase will not continue, such as a tax cap, then it would be appropriate to project growth in cash inflows from property taxes at a percentage that is consistent with those known conditions or events.

Disclosure of Assumptions

17. **The Board's preliminary view is that disclosure of assumptions should be required.**

18. The Board believes that a requirement to disclose the significant assumptions used would be most appropriate given the principles-based approach for providing guidance on how to identify and develop assumptions. The Board determined that disclosing assumptions will help users understand how the financial projections were made and assess their reasonableness. Finally, the Board believes that approaches to making financial projections are well established already, and therefore there is no need to specify the mechanics. Rather, the Board believes that it is more appropriate to identify the

guiding principles that will result in governmental entities making the most reliable financial projections possible.

Projection Period

19. **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.**

20. The Board discussed projecting financial information for a variety of projection periods. Periods used by national governments for projecting financial information vary from 25 years to 75 years. Although few U.S. state and local governmental entities report financial projections, those that do tend to use shorter projection periods, varying from 2 to 11 years.

21. A majority of research participants stated that financial projections spanning more than five individual years beyond the current reporting period would be unreliable. The use of a shorter projection period generally results in more reliable financial projections than using a longer projection period. This is due to the fact that unanticipated changes are more likely to occur during a longer projection period and may have effects on the credibility of the financial projections. Also, any differences between the projected and actual information in the first year projected will compound with each succeeding year, potentially increasing from a small variance to a sizeable one during the projection period.

22. All financial projections are expected to vary from actual results to some degree; actual experience rarely turns out precisely as projected. The Board believes that financial projections spanning a five-year period are sufficient to provide users with decision-useful information, while minimizing the potential variance between projected and actual results. The Board concluded that a period of less than five years would not provide sufficient information for a user's assessment of a governmental entity's fiscal sustainability. A period of less than five years may not be sufficient to provide relevant information on the potential effects of future trends, which may require several years for their implications to become evident. Also, a period of less than five years may not reflect potential changes in policy that have been formally adopted but have not yet become effective, or the effect of changes in assumptions that will be made in projection periods. These changes may not be included in a shorter projection period; however, they may have major impacts on a user's assessment of fiscal sustainability.

23. The Board considered whether requiring financial projections for a *minimum* of five individual years, rather than prescribing a definitive number of years (such as five years), would make the auditor's application of limited procedures associated with RSI difficult. (The reporting of financial projections is discussed in Chapter 5.) In its consideration, the Board reviewed the AICPA's SAS 120, *Required Supplementary Information,* which addresses the auditor's responsibility with respect to information that the GASB requires to accompany an entity's basic financial statements, or RSI. Specifically, the procedures would require the auditor to inquire, compare, and obtain written representation from the governmental entity that the measurement and presentation of the financial projections are

consistent with the GASB’s prescribed guidance. The Board believes that whether a governmental entity projects its financial information for five years or more than five years, the information would be consistent with the GASB-prescribed guidance. As a result, the governmental entity would be able to provide the auditor with the written representations necessary to meet the SAS 120 requirements. The Board also believes that auditors would be able to perform the inquiry and comparability procedures as set forth in SAS 120.

CHAPTER 5—REPORTING FINANCIAL PROJECTIONS AND RELATED NARRATIVE DISCUSSIONS

1. In determining the proper method of reporting financial projections and related narrative discussions, the Board considered (a) the applicability of the qualitative characteristics of financial information, (b) where governmental entities should report this information, (c) which governmental entities should report this information, and (d) how governmental entities should report this information. The issue of how governmental entities report this information specifically encompasses the following:

a. Whether to include only governmental activities or both governmental and business-type activities
b. Whether to include component units
c. What to individually display as a "major" cash inflow, cash outflow, and financial obligation, and what to discuss as a major intergovernmental service interdependency
d. How to signify to the user that actual results may differ from the financial projections and related narrative discussions reported.

Qualitative Characteristics Applicable to Financial Projections and Related Narrative Discussions

2. Concepts Statement 1 states that for information in financial reports to be effectively communicated, it needs to possess six qualitative characteristics: relevance, reliability, comparability, consistency, timeliness, and understandability. The six qualitative characteristics are intended to provide a foundation for the reporting of all financial information in GPEFRs, but they may apply differently to various types of financial information. Therefore, the Board has determined that it is necessary to decide whether and, if so, how the qualitative characteristics of financial information are applicable to financial projections and related narrative discussions.

3. **The Board's preliminary view is that the six qualitative characteristics of financial information identified and described in Concepts Statement 1 are equally applicable to financial projections and related narrative discussions.**

4. In deciding the applicability of the qualitative characteristics, the Board examined the GASB literature in conjunction with other sources, such as other accounting standards setters, which have already addressed the reporting of financial projections, also referred to as forward-looking information. (In the literature examined, forward-looking information is often used to refer to fiscal sustainability information.) In this examination, the Board determined that these qualitative characteristics apply to forward-looking information and, therefore, are applicable to financial projections. The following table sets forth how the six qualitative characteristics apply to forward-looking information.

Qualitative Characteristic	Applicability to Forward-Looking Information
Relevance	Forward-looking information is relevant if it has a close logical relationship to, and is capable of making a difference in, a user's assessment of a governmental entity's fiscal sustainability.
Reliability	Forward-looking information is reliable if it is verifiable, objective, comprehensive, free from bias, and faithfully represents a governmental entity's fiscal sustainability. The reliability of forward-looking information does not imply precision or certainty.
Comparability	Forward-looking information is comparable if it is projected using standardized procedures and practices. The comparability of forward-looking information recognizes that there may be substantive differences in the underlying transactions or structure of the governmental entity.
Consistency	Forward-looking information is consistent if the projections are made using the same assumptions over time. If projection assumptions change, the nature and reason for the change as well as the effect of the change on a governmental entity's fiscal sustainability should be disclosed.
Timeliness	Forward-looking information is timely if it is issued soon enough after the end of the reporting period to affect decisions related to a governmental entity's fiscal sustainability. Timeliness alone does not make forward-looking information useful, but the passage of time usually diminishes the usefulness that the forward-looking information otherwise would have had.
Understandability	Forward-looking information is understandable if it is expressed in a manner that can be understood by users who may not have a detailed knowledge of accounting principles. Forward-looking information should include explanations that help users understand the governmental entity's fiscal sustainability.

5. Financial reporting is the means of communicating financial information to users. If the reporting of financial projections and related narrative discussions is to be effectively communicated, it needs to possess all six qualitative characteristics. Certain users may consider one qualitative characteristic to be more important to them than another. However, there is no universal agreement as to which qualitative characteristic should be emphasized given the different users, their interest, and their needs. One or more qualitative characteristics may include attributes of other qualitative characteristics. For example, if a financial projection is not provided in a timely manner or is not reliable, then it is not relevant. Therefore, an appropriate balance needs to be reached on the application

of the six qualitative characteristics to financial projections and related narrative discussions.

6. The Board recognizes that cost–benefit is a pervasive constraint that applies to all of the qualitative characteristics and therefore to financial projections and related narrative discussions. The Board considers the implications of costs versus benefits during its deliberations of all of its projects.

Where to Report Financial Projections and Related Narrative Discussions

7. The reporting of financial projections in U.S. financial reports has predominantly been limited to the U.S. federal government, which is governed by the standards of the FASAB, and selected information by state and local governmental entities such as future debt service requirements per GASB pronouncements. FASAB SFFAS 36 states that required long-term projection information will be presented as a basic financial statement, disclosures, and RSI in the Comprehensive Financial Report of the U.S. Government.

8. GASB Concepts Statement 3 explains that information in a GPEFR that includes basic financial statements can be reported in one of four ways—recognition in financial statements, disclosure in notes to the financial statements, or presentation as RSI or supplementary information (SI). Concepts Statement 3 establishes a hierarchy for selecting communication methods to present items of information within GPEFRs. The components of fiscal sustainability information identified in Chapter 3 were subjected to the following reporting and presentation criteria, as outlined in Concepts Statement 3, to determine the proper communication method for this information:

a. Essential for displaying the inflows or outflows of resources from transactions or other events during a period of time or essential for displaying financial position of the reporting entity at a moment in time and therefore should be communicated as a basic financial statement
b. Essential to a user's understanding of inflows and outflows of resources or financial position and therefore should be disclosed as a note to the basic financial statements
c. Essential for placing basic financial statements and notes to basic financial statements in an appropriate operational or economic context and therefore should be communicated as RSI
d. Useful for placing basic financial statements and notes to basic financial statements in an appropriate operational or economic context and therefore should be communicated as SI.

9. **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, financial projections and related narrative discussions should be required and communicated as RSI.**

10. Concepts Statement 3, paragraph 41, defines *operational context* as relating financial information to the activities, policies, and nonfinancial resources of a governmental entity. It defines *economic context* as describing a government's economic environment or facilitating a comparison of financial information among governmental entities. Based on Concepts Statement 3, the Board believes that the components of fiscal sustainability information have a clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains. Further, the Board believes that this information provides a basis for a clearer understanding of the degree to which the financial position and inflows and outflows communicated in the basic financial statements are sustainable. As a result, the Board believes that the components of fiscal sustainability information are *essential* for providing operational and economic context and should be communicated as RSI.

11. The Board considered whether the components of fiscal sustainability information are essential for communicating financial position or inflows and outflows and therefore should be communicated in a financial statement or the notes to the financial statements. The Board believes that Concepts Statement 3 provides no explicit direction that specifically excludes the reporting of inflows and outflows that result from transactions occurring in *future* reporting periods. However, the Board believes that projections of this information are not essential for communicating a governmental entity's financial position.

12. The Board also considered whether the components of fiscal sustainability information are *useful* for placing the basic financial statements and notes to basic financial statements in an appropriate operational or economic context and therefore should be communicated as SI. As noted above, the Board believes that this information is *essential* rather than *useful* for placing basic financial statements and notes to basic financial statements in an appropriate operational or economic context. Therefore, the Board decided not to report the components of fiscal sustainability information voluntarily in SI.

Which Governments Should Report Financial Projections and Related Narrative Discussions

13. **The Board's preliminary view is that all governmental entities should be required to report financial projections and related narrative discussions.**

14. The Board believes that users of governmental entity financial reports need to understand the potential issues that may have an effect on fiscal sustainability regardless of a government's size or type. Therefore, the Board believes that governmental entities of all sizes and types need to provide users with information that allows them to assess the fiscal sustainability of the governmental entity. However, the Board will explore whether a phase-in period for implementation would be appropriate. A phase-in period would likely be patterned after phase-in periods in prior standards, such as Statement 34, which required larger governmental entities to implement the standards prior to smaller entities.

How to Report Financial Projections and Related Narrative Discussions

Inclusion of Governmental and Business-Type Activities

15. **The Board's preliminary view is that financial projections and related narrative discussions should be reported for the primary government, including both governmental activities and business-type activities with net subtotals (inflows less outflows) for the general fund, other governmental activities, total governmental activities, total business-type activities, and a net total for the entire primary government. A narrative discussion would be necessary in instances in which one or more activities are determined to significantly affect (positively or negatively) the fiscal sustainability of the primary government.**

16. The Board believes that in order for users to be able to make an assessment of a governmental entity's fiscal sustainability, they need information about the primary government in its entirety. The Board also believes that, in many governmental entities, projections of cash inflows and outflows for the general fund will assist users in assessing how the continuation of either programs or functions (or objects) will impact the need to adjust future tax rates. Without both combined and disaggregated information for the primary government, users would lack the comprehensive information necessary to assess its fiscal sustainability.

17. The Board discussed the possibility that business-type activities may provide benefits to or place burdens on governmental activities. The Board believes that without reporting both governmental activities and business-type activities, users would not have the ability to assess the potential effects of any benefit or burden relationships on a primary government's fiscal sustainability. The Board believes that, in instances in which one or more particular business-type activities of a primary government significantly affects the governmental entity's fiscal sustainability, users need individual information about that particular activity. As a result, the Board believes that in such an instance, a narrative discussion is necessary to provide users with an explanation of the effects on the fiscal sustainability of the primary government.

Inclusion of Component Units

18. **The Board's preliminary view is that governmental entities should not be required to report financial projections and related narrative discussions on their discretely presented component units.**

19. In reaching its preliminary view, the Board noted that Statement No. 14, *The Financial Reporting Entity*, as amended, establishes component units as "legally separate organizations for which the elected officials of the primary government are financially accountable" (paragraph 20). Statement 14 further states, "One of the key aspects of the reporting entity concept is that users should be able to distinguish between the primary government and its component units. Thus, because the notes and required supplementary information are integral parts of the financial statements, they should distinguish between

information pertaining to the primary government (including its blended component units) and that of its discretely presented component units" (paragraph 62).

20. The Board believes that preparing financial projections for discretely presented component units would be difficult for the primary government. Preparers may have difficulty getting forward-looking information from discretely presented component units, which may affect the timeliness of their financial reporting. The Board also believes that the information on the components of fiscal sustainability of discretely presented component units, if presented, should not be aggregated with the information for the governmental activities and business-type activities because they are separate legal entities. Further, these discretely presented component units would be reporting their own financial projections and related narrative discussions in their separately issued financial reports.

Determination of What Is Considered "Major"

21. Four of the five components of fiscal sustainability information identified in Chapter 3 state that the information needs to be "major" in order to be individually displayed. One alternative considered for determining what is major included individually displaying projections of cash inflows, cash outflows, and financial obligations of a governmental or business-type activity that meet or exceed a certain percentage (such as 10 percent or 5 percent) of total cash inflows, total cash outflows, and total financial obligations for all activities of that type. Another alternative considered was individually displaying projections of cash inflows, cash outflows, and financial obligations that meet or exceed a certain percentage of total cash inflows, total cash outflows, and total financial obligations for all activities of that type until a cumulative percentage threshold (such as 75 percent) is reached.

22. **The Board's preliminary view is that the following individual cash inflows, cash outflows, and financial obligations are major:**

- **a. Individual governmental and business-type activities cash inflows, cash outflows, and financial obligations that represent at least 10 percent of total cash inflows, total cash outflows, or total financial obligations, respectively, for all activities of *that type* in *any of the projection periods reported***
- **b. Cash outlays for capital**
- **c. Capital-related cash inflows from bond proceeds, capital grants, or other sources that are restricted or committed to capital outlays**
- **d. Any other cash inflows, cash outflows, or financial obligations that a government believes is particularly important to users when making an assessment of the government's fiscal sustainability.**

Determining which intergovernmental service interdependencies are major is a matter of professional judgment.

23. In reaching its preliminary view, the Board considered that Statement 34 sets forth the criteria that individual governmental or enterprise funds other than the government's

main operating fund (which is always considered to be a major fund) that are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds) and at least 5 percent of the corresponding total for all governmental and enterprise funds combined, be identified as a major fund. Statement 34 also states, "In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund" (paragraph 76). The Board believes that the 10 percent threshold is consistent with that set forth in Statement 34 for identifying major funds. Also consistent with Statement 34, the Board believes that a government may report any other individual cash inflow, cash outflow, or financial obligation as major that government officials believe is particularly important to users when making an assessment of a governmental entity's fiscal sustainability.

24. The Board believes that if an individual cash inflow, cash outflow, or financial obligation meets the 10 percent threshold and is therefore identified as major in any one of the projection periods reported, it should be identified as major for each of the projection periods presented and reported individually. In order for the financial projections to be consistent and comparable, an individual cash inflow, cash outflow, or financial obligation reported in one period as major would need to be reported as major for the other periods in the projection as well.

25. In considering the determination of major, the Board reviewed a comparison of annual financial reports of governmental entities of varying sizes and types. The Board believes that the probability of capturing cash inflows, cash outflows, or financial obligations that may have a significant effect on fiscal sustainability is not greatly increased when establishing major at a 5 percent threshold. Likewise, based on the review of the research, the Board believes that adding a minimum cumulative threshold, such as 75 percent of total cash inflows, cash outflows, or financial obligations, would not result in capturing many more significant cash inflows, cash outflows, or financial obligations.

26. The Board concluded that cash outflows for capital outlays and capital-related cash inflows from bond proceeds, capital grants, or other sources that are restricted or committed to capital outlays should always be individually reported as major. The Board believes being able to separately discern cash inflows and outflows related to capital outlays is necessary to users in making an assessment of a governmental entity's fiscal sustainability.

27. Intergovernmental service interdependencies differ from cash inflows, cash outflows, and financial obligations in that they are more qualitative than quantitative in nature. The Board believes that allowing for professional judgment would be appropriate for determining which intergovernmental service interdependencies are major and should be included in the narrative discussion.

Cautionary Notice

28. **The Board's preliminary view is that a cautionary notice should precede the displayed financial projections and related narrative discussions to place that information in context. This cautionary notice should read:**

> **The financial projections that follow assume current fiscal policies would be continued, with consideration of historical information as well as known events and conditions that affect the projection periods. These financial projections may be used to assess whether projected cash inflows will be sufficient to sustain public services and to meet financial obligations as they come due. However, it is important to note that projections of cash inflows, cash outflows, and accrued financial obligations based on current policy do not represent a forecast or a prediction of the most likely outcome.**
>
> **Financial projections may be based upon assumptions regarding changes in social, economic, and demographic events and conditions that are inherently subject to uncertainties. Therefore, readers are cautioned that actual future financial results of [government name] may be significantly different from the financial projections that are reported.**

CHAPTER 6—ALTERNATIVE VIEW

1. Two Board members do not agree that financial projections and related narrative discussions should be required as RSI in an annual financial report (AFR) or comprehensive annual financial report (CAFR). These members believe that the development of forward-looking financial information is within the scope of the GASB and is appropriate for the Board's agenda; however, they do not believe that the reporting of this information "is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context" (Concepts Statement 3, paragraph 42). Concepts Statement 3, paragraph 44, further describes the types and qualitative characteristics of information reported as RSI as follows: "RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and notes to basic financial statements in context. However, RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit's future financial position. . . ."

2. These Board members believe that the purpose of RSI is to provide information essential for an understanding of the specific historical data presented in the financial statements or notes. These Board members also believe that forward-looking financial information, as presented in this Preliminary Views, is subjective and not essential to the financial information being presented in an AFR or CAFR. These Board members also question the cost–benefit relationship for some governmental entities in reporting financial projections and related narrative discussions. These Board members are concerned, as well, about the effect their preparation will have on the timeliness of audited financial statements and the willingness to report in conformity with generally accepted accounting principles for governmental entities that have an option.

3. These Board members believe that much information that users could use to reach their own conclusion on the future fiscal sustainability of the governmental entity is presently available in a CAFR but not in an AFR. As history does provide an essential context for the future, improving the historical data included in an AFR would be beneficial for both preparers and users of those reports. In a CAFR, certain 10-year historical schedules, such as the changes in net assets or the changes in fund balances of governmental funds, provide historical trend data from which users could draw conclusions about a governmental entity's ability to continue to provide its current level of service. However, as many governmental entities do not prepare CAFRs, the users of the reports of these governmental entities do not have access to these useful historical schedules. Therefore, the members believe having schedules such as those listed above, which are presently included in the Statistical Section of a CAFR reclassified as RSI in all reports, would provide an alternative to address fiscal sustainability information needs. Also, providing the information in graphical display may enhance the user's understanding of the trends. The trends provide evidence of the governmental entity's ability and willingness to manage its revenues and expenditures. In addition, the Board members suggest that a requirement to provide where to obtain the subsequent year's

budget in an AFR or CAFR would provide an indication of the future of a governmental entity. An adopted budget is not a projection but instead an operational plan that has been subjected to a public process for adoption and to which the governmental entity is committed. Because there are references in CAFRs to where to obtain component unit stand-alone financial reports and pension plan stand-alone reports, reference also can be made on where to obtain the governmental entity's subsequent year budget document.

APPENDIX—ILLUSTRATIONS

1. Illustrations have been included to enhance the understanding of the Board's preliminary views. The inclusion of these illustrations is for demonstrative purposes only and does not represent the endorsement by the GASB of any particular method of presentation.

CONTENTS

Page Number

Illustration 1. Cautionary Notice

Required Supplementary Information:

FINANCIAL PROJECTIONS

The financial projections that follow assume current fiscal policies would be continued, with consideration of historical information as well as known events and conditions that affect the projection periods. These financial projections may be used to assess whether projected cash inflows will be sufficient to sustain public services and to meet financial obligations as they come due. However, it is important to note that projections of cash inflows, cash outflows, and accrued financial obligations based on current policy do not represent a forecast or a prediction of the most likely outcome.

Financial projections may be based upon assumptions regarding changes in social, economic, and demographic events and conditions that are inherently subject to uncertainties. Therefore, readers are cautioned that actual future financial results of [government name] may be significantly different from the financial projections that are reported.

Illustration 2. Schedule of Projections—Cash Inflows and Cash Outflows, City Government

City of XYZ
Required Supplementary Information
Projections of Cash Inflows and Cash Outflows, Fiscal Years 20X2–20X6

	Fiscal Year 20X1 Actual	Percentage of Total	20X2 Dollars	20X2 Percentage	20X3 Dollars	20X3 Percentage	20X4 Dollars	20X4 Percentage	20X5 Dollars	20X5 Percentage	20X6 Dollars	20X6 Percentage
Governmental Activities												
General Fund												
Major cash inflows:												
Property taxes	$24,632,416	51%	$25,133,340	51%	$25,639,274	43%	$26,150,267	53%	$26,666,369	53%	$27,187,633	54%
State aid to education	11,201,694	23%	11,089,677	23%	10,978,780	19%	10,868,992	22%	10,760,302	22%	10,652,699	21%
Nonmajor cash inflows	8,794,201	18%	8,618,317	18%	8,618,317	15%	8,618,317	17%	8,618,317	17%	8,618,317	17%
Total cash inflows	44,628,311	92%	44,841,334	92%	45,236,371	76%	45,637,576	92%	46,044,988	92%	46,458,649	92%
Major cash outflows:												
Education	29,784,900	62%	30,806,444	62%	31,868,099	57%	32,971,767	59%	34,042,920	60%	35,152,581	63%
Public safety	5,881,075	12%	6,082,988	12%	6,292,832	11%	6,510,984	12%	6,722,678	12%	6,941,984	12%
Public works	5,288,882	11%	5,468,598	11%	5,655,322	10%	5,849,383	10%	6,037,818	11%	6,232,979	11%
Capital outlays	764,982	2%	1,000,000	2%	–	0%	–	0%	–	0%	–	0%
Nonmajor cash outflows	3,063,182	6%	2,832,869	6%	2,908,915	5%	3,988,324	7%	4,197,710	7%	4,311,128	8%
Total cash outflows	44,783,021	93%	46,190,899	93%	46,725,168	84%	49,320,458	88%	51,001,126	90%	52,638,672	94%
Excess (Deficiency) of general fund cash inflows as compared to cash outflows	(154,710)		(1,349,565)		(1,488,797)		(3,682,882)		(4,956,138)		(6,180,023)	
Other Governmental Activities												
Major cash inflows:												
Bond proceeds	–	0%	–	0%	10,000,000	17%	–	0%	–	0%	–	0%
Nonmajor cash inflows	3,961,398	8%	3,977,082	8%	3,951,854	7%	3,926,878	8%	3,902,151	8%	3,877,672	8%
Total cash inflows	3,961,398	8%	3,977,082	8%	13,951,854	24%	3,926,878	8%	3,902,151	8%	3,877,672	8%
Major cash outflows:												
Capital outlays	–	0%	–	0%	5,000,000	9%	3,000,000	5%	2,000,000	4%	–	0%
Nonmajor cash outflows	3,357,549	7%	3,580,416	7%	3,740,489	7%	3,906,136	7%	3,940,550	7%	3,314,667	6%
Total cash outflows	3,357,549	7%	3,580,416	7%	8,740,489	16%	6,906,136	12%	5,940,550	10%	3,314,667	6%
Excess (Deficiency) of other governmental activities cash inflows as compared to cash outflows	603,849		396,666		5,211,365		(2,979,258)		(2,038,399)		563,005	
Governmental Activities												
Total cash inflows	48,589,709	100%	48,818,416	100%	59,188,225	100%	49,564,454	100%	49,947,139	100%	50,336,321	100%
Total cash outflows	48,140,570	100%	49,771,315	100%	55,465,657	100%	56,226,594	100%	56,941,676	100%	55,953,339	100%
Excess (Deficiency) of governmental activities cash inflows as compared to cash outflows	449,139		(952,899)		3,722,568		(6,662,140)		(6,994,537)		(5,617,018)	

Illustration 2. Schedule of Projections—Cash Inflows and Cash Outflows, City Government (continued)

City of XYZ
Required Supplementary Information
Projections of Cash Inflows and Cash Outflows, Fiscal Years 20X2–20X6

	Fiscal Year 20X1 Actual	Percentage of Total	20X2 Dollars	20X2 Percentage	20X3 Dollars	20X3 Percentage	20X4 Dollars	20X4 Percentage	20X5 Dollars	20X5 Percentage	20X6 Dollars	20X6 Percentage
Business-Type Activities												
Major cash inflows:												
Waste water treatment plant user charges	2,867,522	74%	2,967,885	75%	3,071,761	75%	3,179,272	76%	3,290,547	76%	3,405,716	77%
Parking fees	985,632	26%	995,488	25%	1,005,443	25%	1,015,498	24%	1,025,653	24%	1,035,909	23%
Total cash inflows	3,853,154	100%	3,963,373	100%	4,077,204	100%	4,194,770	100%	4,316,200	100%	4,441,625	100%
Major cash outflows:												
Waste water treatment plant	2,611,240	76%	2,687,600	77%	2,766,673	77%	2,848,586	77%	2,929,513	77%	3,013,154	77%
City parking lots	803,265	24%	819,330	23%	835,717	23%	852,431	23%	869,480	23%	886,869	23%
Total cash outflows	3,414,505	100%	3,506,930	100%	3,602,390	100%	3,701,017	100%	3,798,993	100%	3,900,024	100%
Excess (Deficiency) of business-type activities cash inflows as compared to cash outflows	438,649		456,443		474,814		493,753		517,207		541,602	
Excess (Deficiency) of the primary government cash inflows as compared to cash outflows	$ 887,788		$ (496,456)		$ 4,197,382		$ (6,168,387)		$ (6,477,330)		$ (5,075,416)	

Illustration 3. Schedule of Projections—Cash Inflows and Cash Outflows (by Object), City Government

City of XYZ
Required Supplementary Information
Projections of Cash Inflows and Cash Outflows, Fiscal Years 20X2–20X6

	Fiscal Year 20X1 Actual	Percentage of Total	20X2 Dollars	20X2 Percentage	20X3 Dollars	20X3 Percentage	20X4 Dollars	20X4 Percentage	20X5 Dollars	20X5 Percentage	20X6 Dollars	20X6 Percentage
Governmental Activities												
General Fund												
Major cash inflows:												
Property taxes	$24,632,416	51%	$25,133,340	51%	$25,639,274	43%	$26,150,267	53%	$26,666,369	53%	$27,187,633	54%
State aid to education	11,201,694	23%	11,089,677	23%	10,978,780	19%	10,868,992	22%	10,760,302	22%	10,652,699	21%
Nonmajor cash inflows	8,794,201	18%	8,618,317	18%	8,618,317	15%	8,618,317	17%	8,618,317	17%	8,618,317	17%
Total cash inflows	44,628,311	92%	44,841,334	92%	45,236,371	76%	45,637,576	92%	46,044,988	92%	46,458,649	92%
Major cash outflows:												
Salaries and wages	29,393,105	61%	30,274,898	61%	31,183,145	56%	32,118,639	57%	33,115,394	58%	34,142,052	61%
Fringe benefits	5,894,311	12%	6,339,989	13%	6,814,492	12%	7,319,737	13%	7,746,007	14%	8,196,101	15%
Capital outlays	764,982	2%	1,000,000	2%	–	0%	–	0%	–	0%	–	0%
Nonmajor cash outflows	8,730,623	18%	8,576,011	17%	8,727,531	16%	9,882,082	18%	10,139,724	18%	10,300,518	18%
Total cash outflows	44,783,021	93%	46,190,899	93%	46,725,168	84%	49,320,458	88%	51,001,126	90%	52,638,672	94%
Excess (Deficiency) of general fund cash inflows as compared to cash outflows	(154,710)		(1,349,565)		(1,488,797)		(3,682,882)		(4,956,138)		(6,180,023)	
Other Governmental Activities												
Major cash inflows:												
Bond proceeds	–	0%	–	0%	10,000,000	17%	–	0%	–	0%	–	0%
Nonmajor cash inflows	3,961,398	8%	3,977,082	8%	3,951,854	7%	3,926,878	8%	3,902,151	8%	3,877,672	8%
Total cash inflows	3,961,398	8%	3,977,082	8%	13,951,854	24%	3,926,878	8%	3,902,151	8%	3,877,672	8%
Major cash outflows:												
Capital outlays	–	0%	–	0%	5,000,000	9%	3,000,000	5%	2,000,000	4%	–	0%
Nonmajor cash outflows	3,357,549	7%	3,580,416	7%	3,740,489	7%	3,906,136	7%	3,940,550	7%	3,314,667	6%
Total cash outflows	3,357,549	7%	3,580,416	7%	8,740,489	16%	6,906,136	12%	5,940,550	10%	3,314,667	6%
Excess (Deficiency) of other governmental activities cash inflows as compared to cash outflows	603,849		396,666		5,211,365		(2,979,258)		(2,038,399)		563,005	
Governmental Activities												
Total cash inflows	48,589,709	100%	48,818,416	100%	59,188,225	100%	49,564,454	100%	49,947,139	100%	50,336,321	100%
Total cash outflows	48,140,569	100%	49,771,315	100%	55,465,657	100%	56,226,594	100%	56,941,676	100%	55,953,339	100%
Excess (Deficiency) of governmental activities cash inflows as compared to cash outflows	449,139		(952,899)		3,722,568		(6,662,140)		(6,994,537)		(5,617,018)	

Illustration 3. Schedule of Projections—Cash Inflows and Cash Outflows (by object), City Government (continued)

City of XYZ
Required Supplementary Information
Projections of Cash Inflows and Cash Outflows, Fiscal Years 20X2–20X6

	Fiscal Year 20X1 Actual	Percentage of Total	20X2 Dollars	20X2 Percentage	20X3 Dollars	20X3 Percentage	20X4 Dollars	20X4 Percentage	20X5 Dollars	20X5 Percentage	20X6 Dollars	20X6 Percentage
Business-Type Activities												
Major cash inflows:												
Waste water treatment plant user charges	2,867,522	74%	2,967,885	75%	3,071,761	75%	3,179,272	76%	3,290,547	76%	3,405,716	77%
Parking fees	985,632	26%	995,488	25%	1,005,443	25%	1,015,498	24%	1,025,653	24%	1,035,909	23%
Total cash inflows	3,853,154	100%	3,963,373	100%	4,077,204	100%	4,194,770	100%	4,316,200	100%	4,441,625	100%
Major cash outflows:												
Salaries and wages	1,040,654	30%	1,071,874	31%	1,104,030	31%	1,137,151	31%	1,171,266	31%	1,206,404	31%
Nonmajor cash outflows	2,373,851	70%	2,435,056	69%	2,498,360	69%	2,563,866	69%	2,627,728	69%	2,693,620	69%
Total cash outflows	3,414,505	100%	3,506,930	100%	3,602,390	100%	3,701,017	100%	3,798,994	100%	3,900,024	100%
Excess (Deficiency) of business-type activities cash inflows as compared to cash outflows	438,649		456,443		474,814		493,753		517,206		541,601	
Excess (Deficiency) of the primary government cash inflows as compared to cash outflows	$ 887,788		$ (496,456)		$ 4,197,382		$ (6,168,387)		$ (6,477,330)		$ (5,075,416)	

Illustration 4. Schedule of Projections—Financial Obligations, City Government

City of XYZ
Required Supplementary Information
Projections of Financial Obligations, Fiscal Years 20X2–20X6

	Governmental Activities				
	General Obligation Bonds	**Unfunded Pension Obligations**	**Unfunded OPEB Obligations**	**Nonmajor Obligations**	**Total**
20X1 Actual	$ 13,172,688	$ 25,000,000	$ 32,000,000	$ 4,755,000	$74,927,688
Projections for:					
20X2	11,775,688	26,415,697	33,477,500	4,050,000	75,718,885
20X3	20,378,688	27,817,991	34,920,624	3,340,000	86,457,303
20X4	18,481,688	29,202,508	36,326,402	2,598,000	86,608,597
20X5	16,587,688	30,564,796	37,691,898	2,488,000	87,332,382
20X6	14,855,688	31,900,357	39,014,218	2,384,000	88,154,264

	Business-Type Activities				
	Activity Bonds	**Unfunded Pension Obligations**	**Unfunded OPEB Obligations**	**Nonmajor Obligations**	**Total**
20X1 Actual	2,320,000	825,000	1,056,000	299,800	4,500,800
Projections for:					
20X2	1,975,000	871,718	1,104,758	278,000	4,229,475
20X3	1,630,000	917,994	1,152,381	256,200	3,956,574
20X4	1,403,000	963,683	1,198,771	234,400	3,799,854
20X5	1,178,000	1,008,638	1,243,833	212,600	3,643,071
20X6	953,000	1,052,712	1,287,469	190,800	3,483,981

Illustration 5. Required Notes to the Schedules, City Government

Notes to the Required Supplementary Information

A. Explanations of known causes for fluctuations in the projections of cash inflows and cash outflows

General Fund and Other Governmental Activities—Cash Inflows

The projections of property taxes assume the following:

- No increase in the city's millage rate.
- A 1 percent increase in valuation each year for existing residential and commercial properties. This annual projected increase is consistent with the city's average actual increase in valuation for the past five years.
- $20,000,000 of additional valuation each year due to new residential and commercial construction. This annual projected growth is consistent with the city's average actual new construction for the past five years.

The projections of state aid to education assume a 1 percent reduction in inflows in each of the 5 years projected. This annual projected reduction is consistent with the city's actual experience for fiscal years 20W7–20X1.

The $10,000,000 of projected bond proceeds (major cash inflow) that have been authorized as of 20X1 are not projected to be issued until 20X3.

A significant portion of the nonmajor inflows of resources are received from the state. Although total state funding is not individually identified as a major inflow of resources, the city believes that significant risks exist that are associated with its receipt. The state has recently enacted a 5 percent cut in noneducation aid to local governments. As a result, 20X2 reflects a 5 percent reduction in inflows from other state aid. The projections of inflows from other state aid will remain at this 20X2 reduced level for 20X3–20X6. The projections of motor vehicle excise taxes remain unchanged throughout the five-year period. This is due to the fact that actual inflows of resources from motor vehicle excise taxes have remained steady for the last five years.

General Fund and Other Governmental Activities—Cash Outflows

The projections of education, public safety, public works, capital outlays, and nonmajor cash outflows assume the following:

- A 3 percent annual increase in contracted salaries for the first 3 years projected. This is due to bargaining unit contracts that are effective for this three-year period. Contracted salaries for the final 2 years are projected to increase by 2 percent, which is consistent with the city's 10-year average increase in contracted salaries.

Illustration 5. Required Notes to the Schedules, City Government (continued)

- An 8 percent increase in health insurance premiums in each of the 5 years projected. Although health insurance premiums have increased by more than 8 percent annually over the past 5 years, the city has recently increased the employee contributions toward these premiums to minimize increases.
- A 2 percent increase in all other operating expenses in each of the 5 years projected. This is consistent with the 10-year average increase in inflation for fiscal years 20W2–20X1.
- An expense for pension benefits equal to 11 percent of total payroll in each of the 5 years projected, with employees covering 3 percent of this expense through individual payroll deductions. Therefore, the city's annual pension expense has been projected at 8 percent of total payroll. However, the city funded only 50 percent of this required 8 percent in 20W6–20X1. The city has adopted a policy to increase the percentage of this funding by 2 percent each year going forward. Therefore, the 20X2 cash outflow is equal to 52 percent of the actual expense, the 20X3 cash outflow is equal to 54 percent of the actual expense, and so on.
- Other postemployment benefits (OPEB) expenses equal to 12 percent of total payroll in each of the 5 years projected. However, the city funded only 50 percent of this amount since 20W4. The city has adopted a policy to increase the percentage of this funding by 2 percentage points each year going forward.
- Capital improvement cash outflows of $1,000,000 in 20X2 (as they were approved in the budget) and then no capital improvement cash outflows except for those associated with the receipt of bond proceeds in all subsequent years projected. The city adopted a policy at the end of 20X1 to not expend any monies on capital improvement projects not covered by bond proceeds after 20X2. The capital cash outflows associated with the $10,000,000 bond proceeds projected to be received in 20X3 are included in the projections of cash outflows as follows: $5,000,000 in 20X3; $3,000,000 in 20X4; and $2,000,000 in 20X5.

Business-Type Activities—Cash Inflows

The projections of wastewater treatment plant user charges assume the following:

- No increase in the city's user charge rate.
- An annual increase of 3.5 percent in water consumption. This projected increase is consistent with the city's average actual increase in water consumption for the past five years.

The projections of parking fees assume an annual increase of 1 percent. This projected increase is consistent with the city's average actual increase in fees collected from parking in the past five years.

Business-Type Activities—Cash Outflows

The assumptions used in the projections of cash outflows for the wastewater treatment plant and the city's parking lots are consistent with those used for governmental activities above.

Illustration 5. Required Notes to the Schedules, City Government (continued)

B. Explanations of known causes for fluctuations in the projections of financial obligations

The projections of major individual financial obligations and total financial obligations, including bonds, pensions, OPEB, and long-term contracts, assume the following:

<u>Governmental Activities</u>

- It is assumed that $10,000,000 of general obligation bonds that have been approved by the voters, but not yet issued, will be issued in 20X3.
- The cash outflows for pension benefits represent 50 percent of the total pension expense in 20X1, 52 percent in 20X2, 54 percent in 20X3, 56 percent in 20X4, 58 percent in 20X5, and 60 percent in 20X6. As a result, the net difference between cash inflows and cash outflows from governmental activities is expected to differ from pension expense by $1,216,229 in 20X1; $1,202,608 in 20X2; $1,187,074 in 20X3; $1,169,526 in 20X4; $1,116,366 in 20X5; and $1,063,205 in 20X6. The total financial obligations projected above include these unpaid differences and reflect an increase in these obligations each year as a result.
- The cash outflows for OPEB benefits represent 50 percent of the total OPEB expense in 20X1, 52 percent in 20X2, 54 percent in 20X3, 56 percent in 20X4, 58 percent in 20X5, and 60 percent in 20X6. As a result, the net difference between cash inflows and cash outflows from governmental activities is expected to differ from OPEB expense by $1,824,344 in 20X1; $1,803,912 in 20X2; $1,780,611 in 20X3; $1,754,289 in 20X4; $1,674,549 in 20X5; and $1,594,808 in 20X6. The total financial obligations projected above include these unpaid differences and reflect an increase in these obligations each year as a result.

<u>Business-Type Activities</u>

- No additional issuance of bonds for the city's business-type activities. The projections of obligations include only those bonds that had been issued at the end of fiscal year 20X1.
- The cash outflows for pension benefits represent 50 percent of the total pension expense in 20X1, 52 percent in 20X2, 54 percent in 20X3, 56 percent in 20X4, 58 percent in 20X5, and 60 percent in 20X6. As a result, the net difference between cash inflows and cash outflows from business-type activities is expected to differ from pension expense by $41,626 in 20X1; $41,160 in 20X2; $40,628 in 20X3; $40,028 in 20X4; $38,208 in 20X5; and $36,389 in 20X6. The total financial obligations projected above include these unfunded differences and reflect an increase in these obligations each year as a result.
- The cash outflows for OPEB benefits represent 50 percent of the total OPEB expense in 20X1, 52 percent in 20X2, 54 percent in 20X3, 56 percent in 20X4, 58 percent in 20X5, and 60 percent in 20X6. As a result, the net difference between cash inflows and cash outflows from business-type activities is expected to differ from OPEB expense by $62,439 in 20X1; $61,740 in 20X2; $60,942 in 20X3; $60,042 in 20X4; $57,312 in 20X5; and $54,583 in 20X6. The total financial obligations projected above include these unfunded differences and reflect an increase in these obligations each year as a result.

Illustration 6. Narrative Discussion of Major Intergovernmental Service Interdependencies, City Government

City of XYZ
Required Supplementary Information
Major Intergovernmental Service Interdependencies

Major intergovernmental service interdependencies that exist include the following:

- The city's dependence on the state to provide various cash inflows, including state aid to education, state revenue sharing, property tax homestead exemptions, and other various grants. These intergovernmental inflows represent approximately 40 percent of the total cash inflows of the city.
- The city's obligation to pay the county an annual fee for county services provided. This cash outflow has been increasing on average by 5 percent a year. The fee is based on the percentage of the city's equalized valuation as assessed by the state in comparison to the total state equalized valuation of all cities in the county.
- The city's public safety dispatch services are currently provided by the neighboring City of ABC. The 10-year contract for these services became effective in 20W8 and expires in 20X7.

Illustration 7. Schedule of Projections—Cash Inflows and Cash Outflows, School District

ABC School District
Required Supplementary Information
Projections of Cash Inflows and Cash Outflows, Fiscal Years 20X2–20X6

	Fiscal Year 20X1 Actual	Percentage of Total	20X2		20X3		20X4		20X5		20X6	
			Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage
Governmental Activities												
General Fund												
Cash inflows												
Property taxes	$ 265,581,864	26%	$ 268,237,683	25%	$ 270,920,059	23%	$ 278,021,383	25%	$ 285,237,641	25%	$ 292,570,422	25%
State aid to education—SEES program	252,873,494	24%	262,988,434	25%	273,507,971	23%	284,448,290	26%	295,826,222	26%	307,659,270	26%
State aid to education—other revenues	108,823,071	11%	108,823,071	10%	108,823,071	9%	108,823,071	10%	108,823,071	10%	108,823,071	9%
Occupational taxes	113,318,876	11%	115,585,254	11%	117,896,959	10%	120,254,898	11%	122,659,996	11%	125,113,196	11%
Nonmajor cash inflows	81,889,266	8%	79,259,277	8%	77,688,288	7%	76,195,848	7%	74,778,030	7%	73,431,104	6%
Total cash inflows	822,486,571	79%	834,893,719	79%	848,836,348	71%	867,743,490	79%	887,324,960	78%	907,597,062	76%
Cash outflows												
Instruction	451,748,898	43%	461,795,793	41%	472,344,853	41%	490,255,488	42%	509,022,942	44%	528,702,688	44%
Plant operations and maintenance	101,287,110	10%	102,457,780	9%	105,082,569	9%	107,835,408	9%	108,704,247	9%	109,637,155	9%
Nonmajor cash outflows	270,874,448	26%	278,601,181	25%	286,661,764	25%	295,076,876	25%	303,868,881	26%	313,061,980	26%
Total cash outflows	823,910,456	78%	842,854,754	75%	864,089,186	74%	893,167,772	77%	921,596,070	80%	951,401,823	79%
Excess (Deficiency) of cash inflows as compared to cash outflows—General Fund	(1,423,885)		(7,961,035)		(15,252,838)		(25,424,282)		(34,271,110)		(43,804,761)	
Other Governmental Activities												
Cash inflows												
Grants and awards	110,408,995	11%	125,700,815	12%	155,700,815	13%	108,200,815	10%	108,200,815	10%	108,200,815	9%
Bond proceeds	23,276,213	2%	1,468,051	0%	81,509,612	7%	–	0%	2,147,816	0%	20,010,341	2%
Interest—restricted to capital	1,293,089	0%	1,293,089	0%	1,293,089	0%	1,293,089	0%	1,293,089	0%	1,293,089	0%
Nonmajor cash inflows	77,951,597	8%	91,063,971	9%	104,317,603	9%	118,840,553	11%	133,930,955	12%	149,597,036	13%
Total cash inflows	212,929,894	21%	219,525,926	21%	342,821,119	29%	228,334,457	21%	245,572,675	22%	279,101,281	24%
Cash outflows												
Plant operations and maintenance	4,798,579	0%	5,175,531	0%	5,974,625	1%	6,811,237	1%	7,101,776	1%	7,411,283	1%
Capital outlays	24,665,899	2%	9,810,643	1%	78,175,491	7%	37,005,810	3%	7,836,547	1%	21,923,432	2%
Debt service	42,373,677	4%	34,292,064	3%	40,240,989	3%	38,630,406	3%	32,860,167	3%	33,302,663	3%
Nonmajor cash outflows	163,062,794	15%	235,159,981	21%	173,958,472	15%	183,951,504	16%	188,585,336	16%	196,432,736	16%
Total cash outflows	234,900,949	22%	284,438,219	25%	298,349,577	26%	266,398,957	23%	236,383,826	20%	259,070,114	21%
Excess (Deficiency) of cash inflows as compared to cash outflows—Other Governmental Activities	(21,971,055)		(64,912,292)		44,471,542		(38,064,500)		9,188,849		20,031,167	
Governmental Activities												
Total cash inflows	1,035,416,465	100%	1,054,419,645	100%	1,191,657,467	100%	1,096,077,947	100%	1,132,897,635	100%	1,186,698,343	100%
Total cash outflows	1,058,811,405	100%	1,127,292,973	100%	1,162,438,763	100%	1,159,566,729	100%	1,157,979,896	100%	1,210,471,937	100%
Excess (Deficiency) of cash inflows as compared to cash outflows—Governmental Activities	(23,394,940)		(72,873,328)		29,218,704		(63,488,783)		(25,082,261)		(23,773,594)	

Illustration 7. Schedule of Projections—Cash Inflows and Cash Outflows, School District (continued)

ABC School District
Required Supplementary Information
Projections of Cash Inflows and Cash Outflows, Fiscal Years 20X2–20X6

	Fiscal Year	Percentage	20X2		20X3		20X4		20X5		20X6	
	20X1 Actual	of Total	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage
Business-Type Activities												
Cash inflows												
School food services	50,107,235	94%	48,604,018	94%	47,145,897	91%	47,617,356	94%	48,093,530	94%	48,574,465	94%
Bond proceeds	–	0%	–	0%	1,520,018	3%	–	0%	–	0%	–	0%
Nonmajor cash inflows	3,427,175	6%	3,358,632	6%	3,291,459	6%	3,225,630	6%	3,161,117	6%	3,097,895	6%
Total cash inflows	53,534,410	100%	51,962,649	100%	51,957,374	100%	50,842,986	100%	51,254,647	100%	51,672,360	100%
Cash outflows												
School food services	48,578,438	92%	50,154,080	92%	51,790,585	92%	53,490,865	91%	55,258,006	93%	57,095,289	93%
Capital outlays	–	0%	–	0%	62,114	0%	1,030,812	2%	–	0%	–	0%
Debt service	864,769	0%	699,838	0%	821,245	1%	788,376	1%	670,616	0%	679,646	0%
Nonmajor cash outflows	3,450,952	7%	3,479,442	6%	3,531,482	6%	3,575,470	6%	3,622,188	6%	3,671,844	6%
Total cash outflows	52,894,159	100%	54,333,359	100%	56,205,426	100%	58,885,522	100%	59,550,810	100%	61,446,779	100%
Excess (Deficiency) of cash inflows as compared to cash outflows—business-type activities	640,251		(2,370,710)		(4,248,051)		(8,042,536)		(8,296,163)		(9,774,419)	
Excess (Deficiency) of cash inflows as compared to cash outflows—**ABC School District**	$(22,754,689)		$(75,244,037)		$24,970,653		$(71,531,319)		$(33,378,424)		$(33,548,013)	

Illustration 8. Schedule of Projections—Financial Obligations, School District

ABC School District
Required Supplementary Information
Projections of Financial Obligations, Fiscal Years 20X2–20X6

	Actual	Projections				
	20X1	**20X2**	**20X3**	**20X4**	**20X5**	**20X6**
Governmental Activities						
Bonds	$ 413,817,972	$ 386,978,423	$ 362,133,174	$ 331,832,900	$ 306,362,700	$ 279,785,100
Unfunded pensions	361,939,763	416,230,727	478,665,337	550,465,137	633,034,908	727,990,144
Unfunded OPEB	635,704,479	664,471,576	694,763,123	726,676,115	760,314,429	795,789,340
Nonmajor obligations	38,787,887	37,445,909	36,203,647	34,688,633	33,415,123	32,086,243
Total financial obligations—governmental activities	1,450,250,101	1,505,126,636	1,571,765,281	1,643,662,785	1,733,127,160	1,835,650,827
Business-Type Activities						
Bonds	8,445,265	7,897,519	7,390,473	6,772,100	6,252,300	5,709,900
Nonmajor obligations	1,163,637	1,123,377	1,086,109	1,040,659	1,002,454	962,587
Total financial obligations—business-type activities	9,608,902	9,020,896	8,476,582	7,812,759	7,254,754	6,672,487
Total financial obligations—**ABC School District**	$ 1,459,859,003	$ 1,514,147,531	$ 1,580,241,863	$ 1,651,475,544	$ 1,740,381,914	$ 1,842,323,314

Illustration 9. Required Notes to the Schedules, School District

Notes to the Required Supplementary Information

A. Explanations of known causes for fluctuations in projected cash inflows and cash outflows

General Fund—Cash Inflows

The projections of property taxes assume the following:

- Due to state legislation limiting the millage rate through 20X3, there will be no increase in the school district's millage rate from the fiscal year 20X0 base rate of $6.23 for fiscal years 20X2–20X3. There is an expected $0.10 increase each year in 20X4–20X6. This annual projected increase is consistent with the school district's average actual increase in valuation for the past five years.
- A 1 percent increase in valuation each year for existing residential and commercial properties. This annual projected increase is consistent with the school district's average actual increase in valuation for the past five years.
- $200,000,000 of additional valuation each year due to new residential and commercial construction. This annual projected growth is consistent with the school district's average actual new construction for the past five years.

The State Educational Excellence Support (SEES) program is the primary method by which state educational funding is obtained. SEES program projections assume a 4 percent increase in inflows in each of the 5 years projected. This annual projected increase is consistent with the school district's actual experience of SEES program funding since its inception.

The projections of other state aid to education remain unchanged throughout the five-year period. This is due to the fact that state aid, other than the SEES program, is awarded on an annual basis and is reliant on state resources. Actual inflows of other state aid has been higher in previous years; however, state funding for educational aid other than the SEES program has been significantly reduced due to the financial stress within the economy.

The projections of occupational taxes reflect the economically resilient nature of ABC County as discussed in the Management's Discussion and Analysis. There is a projected annual increase of 2 percent in occupational taxes, which is consistent with the school district's average actual increase for the past 30 years.

A significant portion of nonmajor cash inflows to the general fund is received from other taxes. The trend for inflows of other taxes collected over the past 30 years shows a consistent annual reduction of 5 percent over the past 10 years after 20 initial years of an annual 8 percent increase. The recent annual 5 percent decrease is projected to continue during the next 5 years. Other nonmajor cash inflows include interest and other sources, both of which are held constant at the 20X1 level of cash inflows.

Illustration 9. Required Notes to the Schedules, School District (continued)

<u>General Fund—Cash Outflows</u>

- Instruction

  Contracted salaries: A 1 percent annual increase in contracted salaries for the first 2 years projected. This is due to bargaining unit contracts that are effective for this two-year period. Contracted salaries for the final 3 years are projected to return to 3 percent, which is consistent with the 10-year average increase in inflation for fiscal years 20W2–20X1.

  Other instruction expenses: A 4 percent increase in all other instruction expenses in each of the 5 years projected. This is consistent with the 10-year average increase in inflation for fiscal years 20W2–20X1.

- Plant operations and maintenance

  Contracted salaries: A 1 percent annual increase in contracted salaries for the first year projected. This is due to bargaining unit contracts that are effective through fiscal year 20X2. Contracted salaries for the final 4 years are projected to return to an annual increase of 3 percent, which is consistent with the 10-year average increase in inflation for fiscal years 20W2–20X1.

  Other plant operations and maintenance expenses: A 1 percent annual increase from the fiscal year 20X1 level. This is consistent with the 10-year average increase in inflation for fiscal years 20W2–20X1.

The projections for health insurance outflows as they relate to each category of governmental activity outflows all assume a 10 percent increase in health insurance premiums in each of the 5 years projected. This is consistent with the 10-year average increase in health insurance premiums for fiscal years 20W2–20X1.

Nonmajor cash outflows include: school administrative support services, student transportation, student support services, instructional support services, business support services, community services operations, and district administration support services. The projections for each of the nonmajor cash outflows are consistent with the 10-year average increase in inflation for fiscal years 20W2–20X1.

<u>Other Governmental Activities—Cash Inflows</u>

Operating grants and awards primarily come from the United States government, local governments, and not-for-profit organizations. The projections for these inflows reflect an expected decrease by 2 percent in base level funds starting in fiscal year 20X2, followed by an inflow rate that remains unchanged from the 20X2 base level for fiscal years 20X3–20X6. During the past 30 years, actual inflows for operating grants and contributions have decreased during times of economic stress. The projected initial decrease in base level grant funding reflects this trend. Additional funds above the base level funding will be received in fiscal years 20X2 and 20X3. The ABC School District has been awarded a $65,000,000 reimbursable grant to enhance the English Language Learner (ELL) curriculum. Reimbursement of cash outflows is expected to be awarded in the amount of $17,500,000 during fiscal year 20X2 and $47,500,000 during 20X3.

Projected bond proceeds through fiscal year 20X6 are based on currently approved bond issuances.

The projections of interest received by the district remain constant through fiscal year 20X6. The trend for interest inflows fluctuates greatly over the past 30 years. The Board established a policy in 1994 that restricts 30 percent of interest inflows for the use of capital investment. The remaining 70 percent of interest inflows are included in the nonmajor cash inflows.

Nonmajor cash inflows for other governmental activities include property taxes, SEES funding, other state aid to education, other sources, other taxes, and interest. The explanations for known causes in fluctuations of these nonmajor cash inflows are the same as those discussed for the general fund.

<u>Other Governmental Activities—Cash Outflows</u>

The projections of cash outflows from other governmental activities for plant operations and maintenance are the same as those discussed for the general fund.

The projections of capital outflows include the renovations, replacement, and additions of new facilities and equipment as is consistent with the Board's long-range facility plan. Projections for fiscal years 20X3 and 20X4 include building one new high school and two new elementary schools, all of which have been voter approved.

The projections of debt service cash outflows assume no new bond issuances. Projections are based on debt service payments in the Financial Section of this comprehensive annual financial report.

Projections of nonmajor cash outflows from other governmental activies are the same as those discussed for the general fund. Other nonmajor cash outflows from other governmental activities include instructional staff support services, school administrative support services, student transportation, student support services, business support services, community services operations, district administration support services, and other expenditures. The projections for each of the nonmajor cash outflows are consistent with the 10-year average increase in inflation for fiscal years 20W2–20X1.

All cash outflows for the $65,000,000 ELL grant will take place in fiscal year 20X2. As a result, the net difference between cash inflows from governmental activities is expected to be less than accrual-based revenues by $47,500,000 in fiscal year 20X2 and is expected to be greater than accrual-based revenues by $47,500,000 in fiscal year 20X3.

<u>Business-Type Activities—Cash Inflows</u>

The school food services program projects a 3 percent reduction in inflows for the first 2 years projected. Program revenues are received through food service charges and federal government grants. During times of economic stress, the ABC School District has experienced a decrease in revenues received by food service charges and an increase in United States government grants. The revenue received per meal is at a higher rate for food service charges than the grant rate. The lower revenue rate for grant funds has caused a 3 percent reduction in revenues during times of economic stress. The trend of school food service program revenues for ABC School District throughout the past 30 years has shown a reduction in charge for service revenues and an increase in federal government grants for an average 3 percent reduction in revenue. After times of economic stress, the food service program is expected to have an annual increase of 1 percent as is included in the projections.

Projected bond proceeds through fiscal year 20X6 are based on currently approved bonds.

Included in the nonmajor inflows is tuition from adult education, preschool, and day care. There is an annual decrease of 2 percent expected in cash inflows consistent with the school district's inflows for the past 10 years.

<u>Business-Type Activities—Cash Outflows</u>

The health insurance outflows for business-type activities are significantly lower than those of governmental activities due to the fact that fewer business-type activity employees receive health insurance benefits. The projections of theses outflows all assume a 10 percent increase in health insurance premiums in each of the 5 years projected. This is consistent with the 10-year average increase in health insurance premiums for fiscal years 20W2–20X1.

The projections of contracted salary and other operating outflows assume the following:

- School food services:

Illustration 9. Required Notes to the Schedules, School District (continued)

> *Contracted salaries:* A 2 percent annual increase in contracted salaries for each of the 5 years projected. This is due to a 2 percent increase in staff, which is consistent with the 10-year average increase for fiscal years 20W2–20X1.
>
> *Other support service expenses:* A 4 percent increase in all other food service expenses in each of the 5 years projected. This is consistent with the 10-year average increase for fiscal years 20W2–20X1.

The projections capital of outflows for fiscal years 20X3 and 20X4 include the building of three voter-approved preschool facilities.

The projections debt of service cash outflows assume no new bond issuances.

Included in the nonmajor outflows is tuition from adult education, preschool, and day care. The projections for each of the nonmajor cash outflows are consistent with the 10-year average increase in program enrollment for fiscal years 20W2–20X1.

B. Explanations of known causes for fluctuations in the projections of financial obligations

The projections of major individual financial obligations and total financial obligations, including bonds, pensions, OPEB, and long-term contracts, assume the following:

<u>Governmental Activities</u>

No additional approval of bonds. The projections of obligations only include those bonds that had been issued at the end of fiscal year 20X1.

The cash outflows for pension benefits represent 72 percent of the total pension expense in fiscal year 20X1 as well as 72 percent in fiscal years 20X2–20X6. As a result, the net of cash inflows and cash outflows from governmental activities is expected to differ from pension expense by $17,091,000 in 20X1; $25,449,763 in 20X2; $25,254,166 in 20X3; $25,052,701 in 20X4; $24,845,192 in 20X5; and $24,631,458 in 20X6. The total financial obligations projected above include these unpaid differences and reflect an increase in these obligations each year as a result.

The cash outflows for other postemployment benefits (OPEB) represent 12 percent of the total OPEB expense in 20X1 as well as 12 percent in projected fiscal years 20X2–20X6. As a result, the net of cash inflows and cash outflows from governmental activities is expected to differ from OPEB expense by $23,500,000 in 20X1; $24,205,000 in 20X2; $24,931,150 in 20X3; $25,679,085 in 20X4; $26,449,457 in 20X5; and $27,242,941 in 20X6. The total financial obligations projected above include these unpaid differences and reflect an increase in these obligations each year as a result.

Illustration 9. Required Notes to the Schedules, School District (continued)

Business-Type Activities

No additional issuance of bonds. The projections of obligations only include those bonds that had been issued at the end of fiscal year 20X1.

Illustration 10. Narrative Discussion of Major Intergovernmental Service Interdependencies, School District

ABC School District
Required Supplementary Information
Major Intergovernmental Service Interdependencies

Major intergovernmental service interdependencies that exist include the following:

- The district's dependence on the federal and state governments to provide various cash inflows of resources including state aid to education and operating grants. These intergovernmental inflows represent approximately 54 percent of the total cash inflows of the district.
- Fourteen of the district's elementary schools are adjacent to county parks. For each of these elementary schools, the county park serves as their playground. ABC County currently pays all maintenance expense for these parks, which results in a reduced maintenance outflow for the district.
- The district is dependent on the county and city for police services. One full-time police officer is provided for every Title 1 high school campus and Title 1 middle school campus in the district. Additional police support also is provided on an as-needed basis.
- The State of ABC pays for active employees' health insurance, the employer match for the State Teachers Retirement System, and other postemployment benefits on behalf of the ABC School District for certified employees. Therefore, these expenses have not been included in the projections of cash outflows of ABC School District. For fiscal year 20X1, these payments totaled $137,444,541. The total payments are expected to be $141,567,877 in 20X2; $145,814,914 in 20X3; $150,189,361 in 20X4; $154,695,042 in 20X5; and $159,335,893 in 20X6. The annual increases in the projections for these on-behalf payments are consistent with the 10-year average increase in payments for fiscal years 20W2–20X1 for certified employees.

Illustration 11. Schedule of Projections—Cash Inflows and Cash Outflows, State Government

State of XYZ
Required Supplementary Information
Projections of Cash Inflows and Cash Outflows, Fiscal Years 20X2–20X6

	Fiscal Year		20X2		20X3		20X4		20X5		20X6	
	20X1 Actual	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage
Governmental Activities												
General Fund												
Cash inflows:												
Personal income taxes	$ 505,578,923	12%	$ 518,218,396	12%	$ 531,173,856	12%	$ 544,453,202	12%	$ 558,064,532	12%	$ 572,016,146	12%
Nonmajor cash inflows	598,236,934	14%	613,192,857	15%	628,522,679	15%	644,235,746	15%	660,341,639	15%	676,850,180	15%
Total cash inflows	1,103,815,857	27%	1,131,411,253	27%	1,159,696,535	27%	1,188,688,948	27%	1,218,406,172	27%	1,248,866,326	27%
Cash outflows:												
Human services	$ 377,328,545	9%	$ 388,648,401	9%	$ 400,307,853	9%	$ 412,317,089	9%	$ 424,686,602	9%	$ 437,427,200	9%
Debt service	63,601,671	2%	57,909,334	1%	55,406,834	1%	49,510,834	1%	46,829,281	1%	46,960,124	1%
Capital outlays	158,878,558	4%	170,901,786	4%	180,537,857	4%	186,099,372	4%	190,887,347	4%	196,602,840	4%
Nonmajor cash outflows	173,132,018	4%	178,325,979	4%	183,675,758	4%	189,186,031	4%	192,969,751	4%	196,829,146	4%
Total cash outflows	772,940,792	19%	795,785,500	19%	819,928,302	19%	837,113,326	18%	855,372,981	18%	877,819,310	18%
Excess (Deficiency) of general fund cash inflows as compared to cash outflows	330,875,065		335,625,754		339,768,232		351,575,623		363,033,191		371,047,016	
Other Governmental Activities												
Cash inflows:												
Statewide education tax	876,407,774	21%	902,700,007	22%	929,781,007	22%	957,674,438	22%	986,404,671	22%	1,015,996,811	22%
Federal grants	1,155,368,400	28%	1,184,252,610	28%	1,213,858,925	28%	1,244,205,398	28%	1,275,310,533	28%	1,307,193,297	28%
American Recovery and Reinvestment Act grant	83,978,571	2%	–	0%	–	0%	–	0%	–	0%	–	0%
Bond proceeds and capital grants	216,343,000	5%	201,751,575	5%	206,795,304	5%	211,965,253	5%	217,364,525	5%	222,695,837	5%
Nonmajor cash inflows	718,683,409	17%	736,650,494	18%	755,066,757	18%	773,943,425	18%	793,292,011	18%	813,124,311	18%
Total cash inflows	3,050,781,154	73%	3,025,354,686	73%	3,105,501,993	73%	3,187,788,515	73%	3,272,371,740	73%	3,359,010,256	73%
Cash outflows:												
Human services	1,343,978,850	32%	1,370,858,427	32%	1,398,275,596	32%	1,426,241,107	31%	1,454,765,930	31%	1,483,861,248	31%
General education	1,460,833,875	35%	1,519,267,230	36%	1,580,037,919	36%	1,643,239,436	36%	1,708,969,013	37%	1,777,327,774	37%
Capital outlays	12,574,235	0%	13,600,293	0%	14,144,304	0%	14,170,076	0%	15,298,480	0%	15,757,434	0%
Nonmajor cash outflows	561,577,962	14%	578,425,301	14%	595,778,060	14%	613,651,402	14%	625,924,430	13%	638,442,918	13%
Total cash outflows	3,378,964,922	81%	3,482,151,251	81%	3,588,235,879	81%	3,697,302,021	82%	3,804,957,853	82%	3,915,389,375	82%
Excess (Deficiency) of other governmental activities cash inflows as compared to cash outflows	(328,183,768)		(456,796,564)		(482,733,885)		(509,513,507)		(532,586,112)		(556,379,119)	
Governmental Activities												
Total cash inflows	4,154,597,011	100%	4,156,765,940	100%	4,265,198,528	100%	4,376,477,463	100%	4,490,777,912	100%	4,607,876,582	100%
Total cash outflows	4,151,905,714	100%	4,277,936,751	100%	4,408,164,181	100%	4,534,415,347	100%	4,660,330,834	100%	4,793,208,685	100%
Excess (Deficiency) of governmental activities cash inflows as compared to cash outflows	2,691,297		(121,170,811)		(142,965,653)		(157,937,884)		(169,552,922)		(185,332,103)	

Illustration 11. Schedule of Projections—Cash Inflows and Cash Outflows, State Government (continued)

State of XYZ
Required Supplementary Information
Projections of Cash Inflows and Cash Outflows, Fiscal Years 20X2–20X6

	Fiscal Year		20X2		20X3		20X4		20X5		20X6	
	20X1 Actual	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage
Business-Type Activities												
Cash inflows												
Unemployment Compensation Trust Fund	68,809,921	30%	71,562,318	30%	74,424,811	30%	77,401,803	31%	79,723,857	31%	82,115,573	31%
Liquor control board	62,935,789	27%	64,823,863	27%	66,768,579	27%	68,771,636	27%	70,834,785	27%	72,959,829	27%
Lottery	90,329,239	39%	92,587,470	39%	94,902,157	39%	97,274,711	38%	99,706,578	38%	102,199,243	38%
Capital contributions	99,999	0%	102,499	0%	105,061	0%	107,688	0%	110,380	0%	113,140	0%
Nonmajor cash inflows	8,891,415	4%	9,158,157	4%	9,432,902	4%	9,715,889	4%	10,007,366	4%	10,307,587	4%
Total cash inflows	231,066,363	100%	238,234,307	100%	245,633,509	100%	253,271,727	100%	260,382,967	100%	267,695,371	100%
Cash outflows												
Unemployment Compensation Trust Fund	154,128,575	49%	135,227,000	45%	105,234,000	38%	89,768,000	34%	76,589,000	30%	78,886,670	30%
Liquor control board	60,560,747	19%	62,377,569	21%	64,248,896	23%	66,176,363	25%	68,161,654	27%	70,206,504	27%
Lottery	89,451,868	28%	91,688,165	31%	93,980,369	34%	96,329,878	36%	98,738,125	39%	101,206,578	38%
Capital outlays	586,795	0%	601,465	0%	616,501	0%	631,914	0%	647,712	0%	663,905	0%
Nonmajor cash outflows	10,409,015	4%	10,721,285	4%	11,042,924	5%	11,374,212	4%	11,715,438	4%	12,066,901	5%
Total cash outflows	315,137,000	100%	300,615,484	100%	275,122,691	100%	264,280,367	100%	255,851,929	100%	263,030,558	100%
Excess (Deficiency) of business-type activities cash inflows as compared to cash outflows	(84,070,637)		(62,381,178)		(29,489,181)		(11,008,640)		4,531,037		4,664,813	
Total Excess (Deficiency) of primary government cash inflows as compared to cash outflows	$(81,379,340)		$(183,551,988)		$(172,454,834)		$(168,946,525)		$(165,021,884)		$(180,667,290)	

Illustration 12. Schedule of Projections—Financial Obligations, State Government

State of XYZ
Required Supplementary Information
Projections of Financial Obligations

		Unfunded Pension Obligations		Unfunded OPEB Obligations		Unemployment	Nonmajor	
	G.O. Bonds	XYZSRS	STRS	XYZSRS	STRS	Claims	Obligations	Total
Governmental Activities								
20X1 Year End Balance	$ 452,981,611	$ 290,590,774	$ 727,758,508	$ 689,749,110	$ 872,236,000	–	$ 32,086,385	$ 3,065,402,388
20X2	437,191,611	328,981,318	775,638,857	720,813,680	905,019,506	–	30,771,385	3,198,416,357
20X3	467,191,611	323,903,644	822,781,371	713,409,893	922,720,286	–	29,466,385	3,279,473,190
20X4	453,801,611	318,466,916	840,215,651	709,251,822	956,362,713	–	28,156,385	3,306,255,098
20X5	439,726,611	312,642,707	858,339,394	704,995,942	990,744,375	–	26,814,385	3,333,263,414
20X6	428,451,611	306,400,272	877,171,714	700,640,396	986,246,870	–	26,104,285	3,325,015,148
Business-Type Activities								
20X1 Year End Balance	–	35,915,714	–	85,249,890	–	60,269,651	–	181,435,255
20X2	–	40,660,612	–	89,089,331	–	–	–	129,749,943
20X3	–	45,738,286	–	96,493,118	–	–	–	142,231,404
20X4	–	51,175,014	–	100,651,189	–	–	–	151,826,203
20X5	–	56,999,223	–	104,907,069	–	–	–	161,906,292
20X6	–	63,241,658	–	109,262,615	–	–	–	172,504,273

Illustration 13. Required Notes to the Schedules, State Government

Notes to the Required Supplementary Information

A. Explanations of known causes for fluctuations in the projections of cash inflows and cash outflows

The projections of cash inflows and cash outflows do not include the potential effects from the recently enacted Federal Health Care Reform Act. Although this Act is considered to be current policy, its effects on the future cash inflows and cash outflows of State XYZ are presently uncertain.

<u>General Fund and Other Governmental Activities—Cash Inflows</u>

- Cash inflows from personal income taxes are expected to increase by 2.5 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase for the past two years.
- Statewide education tax cash inflows are expected to increase by 3 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase for the past three years.
- Cash inflows from federal grants—human services are expected to increase by 2.5 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase for the past two years.
- Cash inflows from the American Recovery and Reinvestment Act grant is projected to terminate after 20X1 as set forth by federal policy.
- The state is projected to issue general obligation (GO) bonds in the amount of $30,000,000 in each year projected. This projected level of GO bond issuance is consistent with the average actual amount issued over the past five years.
- All other nonmajor cash inflows are expected to increase by 2.5 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase for the past three years.

<u>General Fund and Other Governmental Activities—Cash Outflows</u>

- General education cash outflows, which are primarily grants to local school districts, are expected to increase by 2 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase in general education cash outflows for the past two years.
- Human services cash outflows, which are primarily Medicaid payments, are expected to increase by 3 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase in human services cash outflows for the past three years.

Illustration 13. Required Notes to the Schedules, State Government (continued)

- Capital outlay cash outflows are expected to increase over the next five years until the level of those cash outflows are approximately equal to the amount of cash inflows from bonds issued and capital grants.
- All other nonmajor cash outflows are expected to increase in 20X2–20X4 by 3 percent per year. This increase is primarily attributable to an increase in salaries that are under contract for the next three years. All other nonmajor cash outflows are expected to increase by 2 percent for the subsequent 2 years (20X5–20X6).

<u>Business-Type Activities—Cash Inflows</u>

- Cash inflows from unemployment compensation charges are expected to increase by 4 percent per year in 20X2–20X4 and 3 percent for the subsequent 2 years (20X5–20X6).
- Cash inflows from the lottery are expected to increase by 2.5 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase for the past three years.
- Cash inflows from other business-type activities, including the liquor control board, are expected to increase by 3 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase for the past three years.

<u>Business-Type Activities—Cash Outflows</u>

- Cash outflows for unemployment compensation are expected, over the next 4 years (20X2–20X5), to return to historical levels, which approximate 50 percent of current-year cash outflows, and then increase by 3 percent in 20X6.
- Cash outflows for the lottery are expected to increase by 3 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase for the past three years.
- Cash outflows for the liquor control board are expected to increase by 2.5 percent per year in 20X2–20X6. This projected increase is consistent with the state's actual increase for the past three years.

B. Explanations of known causes for fluctuations in the projections of financial obligations

The projections of major individual financial obligations and total financial obligations, including bonds, pensions, OPEB, and long-term contracts, assume the following:

<u>Governmental Activities</u>

- The state is expecting to issue $30,000,000 in GO bonds in each of the 5 years projected. This level of issuance is equal to the average amount of actual bonds issued over the past five years. GO bonds are amortized with equal principal retired each year for 20 years and an assumed interest rate of 4 percent, which is consistent with the current average rate on GO bonds outstanding.

Illustration 13. Required Notes to the Schedules, State Government (continued)

- Pension and OPEB costs in the amount of $123,387,660 were incurred but not paid during 20X1. This results in a reduction of the net difference between cash outflows over cash inflows. Contributions to pension plans (both XYZSRS and STRS) have been made at a rate of 3 percent of salaries for members and 6 percent of salaries for the state. These contributions are expected to increase at the same rate as salaries, or 2 percent per year in 20X2–20X6. Contributions to OPEB plans (XYZSRS and STRS) are being made on a pay-as-you-go basis and are expected to increase at a rate of 3 percent per year in 20X2–20X6 to reflect the increase in retirements. In the projection periods 20X2–20X6, it is expected that cash outflows for pensions and OPEB will be less than pension and OPEB expenses by $132,093,852 for 20X2; $139,009,047 for 20X3; $146,934,138 for 20X4; $152,423,800 for 20X5; and $158,252,256 for 20X6. The excess of pension and OPEB expense over the amount paid each year results in an increase in pension and OPEB obligations.

Business-Type Activities

- Unemployment claims cash outflows for 20X1 were $60,269,651 less than claims expenses reported in the financial statements because of a delay in the payment of unemployment claims. As a result, financial obligations will increase by this same amount.
- Pension and OPEB costs in the amount of $14,534,809 were incurred but not paid during 20X1. This results in a reduction of the net difference between cash outflows over cash inflows. Contributions to pension plans (both XYZSRS and STRS) have been made at a rate of 3 percent of salaries for members and 6 percent of salaries for the state. These contributions are expected to increase at the same rate as salaries, or 2 percent per year in 20X2–20X6. Contributions to OPEB plans (XYZSRS and STRS) are being made on a pay-as-you-go basis and are expected to increase at a rate of 3 percent per year in 20X2–20X6 to reflect the increase in retirements. In the projection periods 20X2–20X6, it is expected that cash outflows for pensions and OPEB will be less than pension and OPEB expenses by $15,560,380 for 20X2; $16,374,976 for 20X3; $17,308,535 for 20X4; $17,955,206 for 20X5; and $18,641,785 for 20X6. The excess of pension and OPEB expense over the amount paid each year results in an increase in pension and OPEB obligations.

Illustration 14. Narrative Discussion of Major Intergovernmental Service Interdependencies, State Government

State of XYZ
Required Supplementary Information
Major Intergovernmental Service Interdependencies

Major intergovernmental service interdependencies that exist include the following:

- State of XYZ counties have the responsibility of administering Medicaid and welfare programs on behalf of the state at their own cost.
- State of XYZ has contracted with several counties to hold state prisoners in county jails. The state pays the county a fixed fee per inmate, per day; however, if the counties ceased providing services, the State of XYZ would need to provide other ways of internment.
- State of XYZ has contracted with several counties to operate state hospitals and incur the service costs. If these hospitals were not operated by the counties, the responsibility would fall back on the state.
- Community mental health programs are provided by local municipalities throughout the state with minimal costs being incurred by State XYZ. If these local municipalities decided not to provide community health programs, the responsibility would fall back on the state.