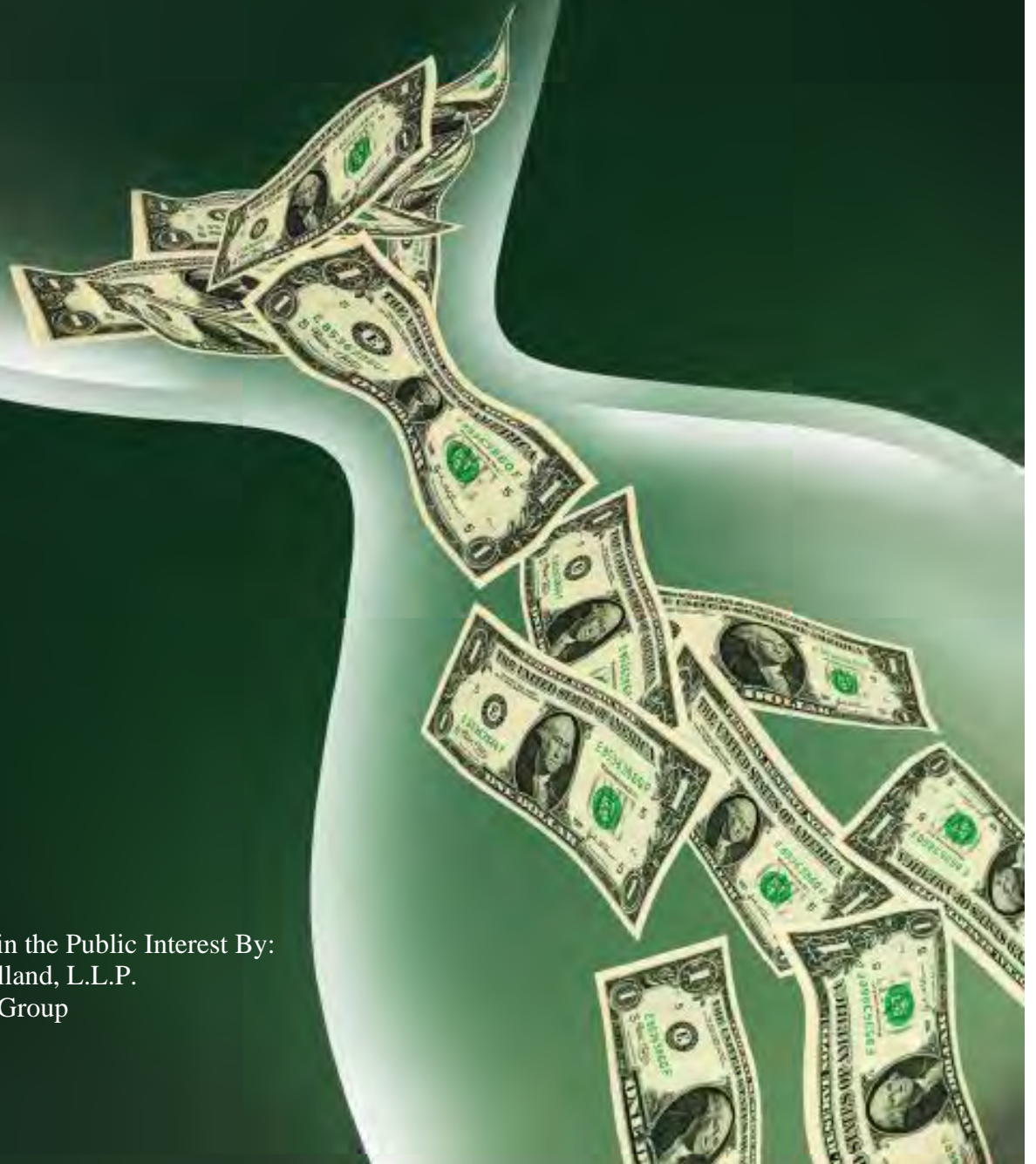


# INTERGOVERNMENTAL FINANCIAL DEPENDENCY AND RELATED RISKS

Volume Three

Supplemental Appendices



Prepared and Offered in the Public Interest By:  
Cherry, Bekaert & Holland, L.L.P.  
Government Services Group

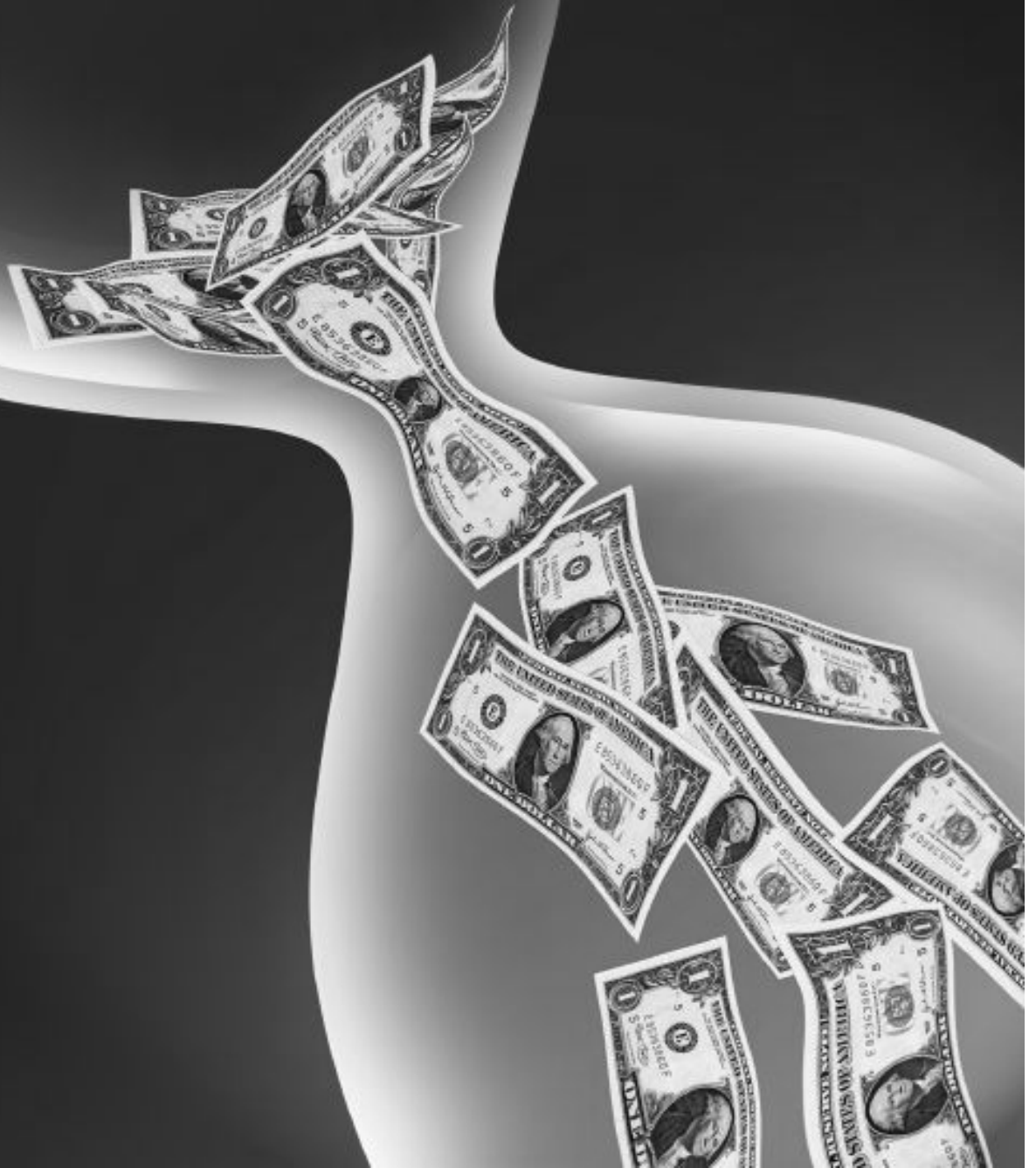


# INTERGOVERNMENTAL FINANCIAL DEPENDENCY AND RELATED RISKS

In Three Volumes

Volume Three

Supplemental Appendices



**Prepared and Offered in the Public Interest by Cherry, Bekaert & Holland, L.L.P.**

**Firm Headquarters – Richmond, Virginia  
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# Contents of Volume Three

## Supplemental Appendices

	<u>Page</u>
Executive Summary	7
Supplemental Appendix A: Literature Research	9
Supplemental Appendix B: GASB Sponsored Independent Research Project	25
Supplemental Appendix C: Fiscal Wake-Up Call Tour	49
Supplemental Appendix D: GAO Study of State and Local Government Fiscal Challenges	51
Supplemental Appendix E: GASB April 2007, “Intergovernmental Financial Dependency Risk (Project) Prospectus”	53
Supplemental Appendix F: Association for Budgeting and Financial Management Conference Summary of Responses to GASB by ABFM Members	60
Supplemental Appendix G: Works Cited and Additional Readings	65
Supplemental Appendix H: Relevant Quotations	73

**Note:**

This Report has been prepared in three Volumes to facilitate ease of use by different readers. Volumes One and Two differ only with respect to Appendix B: “Illustrations Applying the Recommended Report Requirements,” and Appendix C: “Preparation Guidance,” which are tailored to state governments and local governments, respectively. Both Volumes One and Two are referenced to Volume Three, which contains additional background information used in the preparation of the Report.

## Contents of Volume One

### Proposed Reporting by State Governments With Recommended Modifications to Reporting

	<u>Page</u>
Preface	7
Acknowledgements	7
Executive Summary	9
Notice of Request for Written Comments and Invitation to Test the Proposed Reporting	11
Summary of Recommended Reporting Requirements	13
Recommended Reporting Requirements and Modifications to Reporting Standards	17
Appendix A: Basis for Recommended Reporting Requirements	27
Appendix B: Illustrations Applying the Recommended Reporting Requirements to a State Government	35
Appendix C: Preparation Guidance for the State Government Illustrations	103
Appendix D: Background	121

## Contents of Volume Two

### Proposed Reporting by Local Governments With Recommended Modifications to Reporting

	<u>Page</u>
Preface	7
Acknowledgements	7
Executive Summary	9
Notice of Request for Written Comments and Invitation to Test the Proposed Reporting	11
Summary of Recommended Reporting Requirements	13
Recommended Reporting Requirements and Modifications to Reporting Standards	17
Appendix A: Basis for Recommended Reporting Requirements	27
Appendix B: Illustrations Applying the Recommended Reporting Requirements to a Local Government	35
Appendix C: Preparation Guidance for the Local Government Illustrations	97
Appendix D: Background	113

## Executive Summary

*“Rapidly changing demographics in the nation are building up increasing demands for promised social security and medical benefits, while at the same time the country’s growth in its productive workforce is declining. Changes in the use of debt financing by citizens and the Federal Government, and the absence of national savings are creating other potentially conflicting circumstances. While to some extent, conflicting and countervailing forces have always been present in American society, their current arrangement and extraordinary size are without precedent. As these forces play out they will impact government at each level directly, and as each level of government reacts it will in turn impact other levels of government.”*

- GASB, “Project Proposal and Potential Prospectus Information Regarding Reporting and/or Disclosure of Intergovernmental Dependency and Related Risks,” December 12, 2005.

There is a problem today with the external financial reports prepared by state and local governments. The specific information they contain about revenues received from other governments, such as the Federal Government, is difficult to identify. There is virtually no information about the degree to which these governments rely on support from other governments. And, there is no information about how payments from other governments to individuals and businesses, and the financial and economic activity of other governments, impact state and local governments. In the absence of that information, the leaders and stakeholders of state and local governments are significantly disadvantaged, and lack ready accessibility to important information needed to protect and guide the interests of their respective jurisdictions.

The principal purpose of this Report is to encourage and guide the reporting of information concerning intergovernmental financial dependency and related risks within the audited, comprehensive annual financial reports (CAFRs) of our Nation’s state and local governments. Those CAFRs provide a uniformly recognized and accepted vehicle for centralizing critical financial and economic information about state and local government — notwithstanding the fact that the users of CAFRs may be able to go to other sources for information about intergovernmental financial activity. As indicated throughout this report, the size of, and reliance upon, intergovernmental revenues and other flows is so great as to make the presence of such information within CAFRs (in the words adopted by the GASB) both “essential to a user’s understanding of financial position or inflows and outflows of resources,” of the reporting government, and “essential (or useful) for placing the basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context.”

To that end, this Report is intended to directly assist the Nation’s 50 state comptrollers and those who serve as finance directors for the more than 87,000 cities, towns, counties, school districts, and other local government entities. That assistance is provided through the inclusion, within this Report, of:

- Specific proposed and recommended reporting requirements;
- The conceptual and technical basis for those requirements;
- Illustrations of individual recommended reporting and disclosure elements for both a state government and a local municipal government;
- Detailed guidance for the preparation of the recommended reporting, and disclosure elements for both state governments and local municipal governments; and
- A discussion of the underlying forces that are driving the need to report intergovernmental financial dependency, and a summary of various recent professional efforts that formed a foundation for how and why this Report was developed.

The voluntary application of, and experimentation with, all or a selected portion of the recommended reporting requirements by those responsible for the preparation and issuance of comprehensive, annual financial reports by state and local governments can ultimately bring the following significant benefits to the users of such reports:

A. All users of such reports would understand:

- The government’s reliance upon direct and indirect intergovernmental flows;
- The government’s exposure to changes in intergovernmental flows, and in the investment income and asset values associated with holding the debt of other governments; and

- Trends in key national and state-level economic indicators relevant to the sustainability of intergovernmental financial flows.
- B. Bondholders, analysts, credit rating agencies, government research organizations, citizens, and other report users would no longer have to contend with the current inadequate reporting of intergovernmental financial dependency and related risks created by:
- Intergovernmental revenues and, the expenses they fund, not being separately recognized in Government-wide Financial Statements;
  - The highly aggregated reporting of intergovernmental revenues separately recognized in Fund Financial Statements;
  - The absence, or infrequent reporting, of the size and reliance upon intergovernmental revenues in Management’s Discussion and Analysis;
  - The absence, within the notes to the financial statements, of disclosures related to the risks associated with intergovernmental financial dependency; and
  - The absence, within the Statistical Section, of trend and other information addressing key dependency factors.
- C. Governors, mayors, council members, selectmen, supervisors, and other elected officials charged with governing, would be provided with information necessary to ensure that:
- The threats and risks associated with intergovernmental financial dependency would be consciously anticipated;
  - Increased internal and public visibility regarding such threats and risks could be established within each state or local government jurisdiction; and
  - Collaborative initiatives to address threats and risks could be created, and a shared leadership among the state, local, and Federal levels of government could be exerted on a timely basis.

Although the recommended reporting requirements are intended for incorporation within the CAFRs of state and local governments, such governments, in their early application of, or experimentation with, the reporting of intergovernmental dependency and related risks, may choose to present this information as a freestanding supplement to their annual CAFRs. Given consideration of the possible need to amend selected recordation practices, or to otherwise evolve a capacity to prepare the recommended reporting, individual governments may wish to focus their initial attention on the recommended reporting for presentation within “notes to the financial statements.” The Preparation Guidance found in the Appendices should significantly speed and facilitate preparation of the recommended disclosures. This guidance includes estimates of hours of preparation experienced in creating the Illustrations presented in the Appendices.

Finally, this Report is also intended to provide substantive and relevant information to the members and staff of the Governmental Accounting Standards Board, who have had the reporting of intergovernmental financial dependency and related risks under various steps of consideration since 2005. To that end, this Report was purposely structured to contain discussions and content understood to be of importance to the GASB during its consideration, research, deliberations, due process procedures, and ultimate standards setting on matters that it chooses to place on its agenda. The content and approaches within the Report intended to be of particular service to the GASB include:

- A conscious effort to abide by the guidance found in GASB Concepts Statement No. 3, *Communications Methods in General Purpose External Financial Reports that Contain Basic Financial Statements*, in structuring the placement of recommended reporting and disclosure elements;
- A reliance upon, and a building of, relationships between the proposed reporting requirements and past reporting standards and other concepts statements issued by the GASB, the FASB, and the FASAB;
- An intentional effort to blend the purpose and content of this report with past efforts of the GASB relating to this subject, in a manner, hopefully, that extends to the GASB an opportunity to more readily consider how, and at what effort, intergovernmental financial dependency and related risks might be most effectively reported; and
- A conscious effort to be sensitive to the established means and extent to which the various sections of comprehensive annual financial reports gain and benefit from auditor association.



# Supplemental Appendix A: Literature Research

## Table of Contents

	<u>Page</u>
<b>Introduction</b>	<b>10</b>
<b>Summary of Significant Existing Relevant GASB Pronouncements</b>	<b>10</b>
<b>Excerpts and Analysis of GASB Statements No. 37 and No. 40</b>	<b>11</b>
<b>Excerpts and Analysis of AICPA Statement of Position 94-6</b>	<b>12</b>
<b>Excerpts and Analysis from Securities and Exchange Commission Literature</b> Private Securities Litigation Reform Act of 1995, Sec. 102	<b>14</b>
<b>Excerpts and Analysis of GASB Concepts Statement No. 3</b>	<b>14</b>
<b>Excerpts and Analysis of GASB Literature</b>	
Potentially Relating to Intergovernmental Financial Dependency and Related Risks	<b>15</b>
GASB Statement Search for Risk	<b>17</b>
<b>FASAB Pronouncement Search for Risk</b>	<b>19</b>
<b>Excerpts and Analysis of FASB Statement of Financial Accounting Standards No.105</b>	<b>22</b>
<b>Excerpts and Analysis of AICPA Literature</b>	
AICPA Statements of Position Search for Risk	<b>23</b>
AICPA 1987 Report of the Task Force on Risks and Uncertainties	<b>24</b>

## Introduction

The consideration of information presented herein was integral to developing and recommending reporting requirements associated with intergovernmental financial dependency and related risks. This information consists of a search of the existing literature to determine relevant guidance that standards setters may have already included in earlier pronouncements. Part of the search was conducted by the authors of the Report in consultation with various knowledgeable practitioners within the public accounting profession and government. The discussions below, concerning “AICPA SOP 94-6,” and the “SEC Private Securities Litigation Reform Act of 1995, Sec. 102,” were derived from that effort. Additionally, in 2005 and 2006, GASB staff conducted reviews to determine whether specific guidance regarding risks related to intergovernmental financial dependency had been described in existing literature. While that search resulted in the identification of numerous citations relating to risk in general, it resulted in the identification of other types of specific risks.

### Summary of Significant Existing Relevant GASB Pronouncements

The following pronouncements were given full consideration in preparation of this report, and were considered highly relevant to the recommended modifications to existing GASB standards:

**GASB Statement No. 34**, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*

**GASB Statement No. 37**, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments: Omnibus*, paragraph 4: “Amendments to Statement 34, Management’s Discussion and Analysis — Requirements”

**GASB Statement No. 40**, *Deposit and Investment Risk Disclosure*

**GASB Statement No. 44**, *Economic Condition Reporting: The Statistical Section*

**GASB Concepts Statement No. 3**, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*

**Comprehensive Implementation Guide**, 2007-2008, Proprietary Funds 7.5 “Management’s Discussion and Analysis,” paragraphs 7.5.7, and 7.5.13

In addition, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Statement No. 50, *Pension Disclosures*, were found to be useful in establishing the format for recommending modifications to existing standards, as included in this Report.

**GASB Technical Bulletin for Second Third of 2007**

**GASB Memorandum for September 2007 Meeting**

**GASB Memorandum for October 2007 Meeting**

## Excerpts and Analysis of GASB Statements No. 37 and No. 40

### GASB Statement No. 37

#### Amendments to Statement No. 34

##### Management's Discussion and Analysis – Requirements

4. The introductory sentences preceding subparagraph A in paragraph 11 of Statement No. 34 are replaced by the following, including the footnote:

MD&A requirements established by this Statement are discussed below in general rather than specific terms to encourage financial managers to effectively report only the most relevant information and to avoid “boilerplate” discussion. The information presented should be confined to the topics discussed in (a) through (h), below.<sup>a</sup>

---

<sup>a</sup>Governments can provide additional details about the required topics in (a) through (h). Information that does not relate to the required topics should not be included in MD&A, but may be provided elsewhere, such as in the letter of transmittal or in other forms of supplementary information.

**Analysis:** Governments may include additional information in MD&A other than precisely what is enumerated within Statement No. 34, paragraph 11(a – h) if the additional information pertains to one or more of the required listed topics. Paragraph (h) is broad enough to permit consideration and discussion of the reporting government's exposure to intergovernmental financial dependency, including disclosure of the reporting government's exposure to risks associated with holding U.S. government obligations. Such information might relate, for example, to information concerning adverse circumstances and sustainability concerns disclosed in the annual “Financial Report of the United States Government.”

### GASB Statement No. 40

##### Scope and Applicability of This Statement

2. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and **concentrations of credit risk**), **interest rate risk**, and **foreign currency risk**. This Statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. This Statement applies to all state and local governments.

#### Disclosures of Specific Risks

##### Credit Risks

7. Governments should provide information about the credit risk associated with their investments by disclosing the credit quality ratings of investments in debt securities as described by nationally recognized statistical rating organizations – rating agencies – as of the date of their financial statements (for example, by aggregating the amount of investments by rating categories). **Unless there is information to the contrary** (emphasis added), obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. Governments should disclose the credit quality ratings of external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities in which they invest. If a credit quality disclosure is required and the investment is unrated, the disclosure should indicate that fact.

##### Concentration of Credit Risk

11. Governments should provide information about the concentration of credit risk associated with their investments by disclosing, by amount and issuer, investments in any one issuer that represent 5 percent or more of total investments based on the level of detail prescribed in paragraph 5. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

**Analysis:** In the face of having clear and reliable “information to the contrary,” the exclusion currently afforded to obligations of the U.S. government may not be appropriate to apply.

### **Excerpts and Analysis of AICPA Statement of Position 94-6, “Disclosure of Certain Significant Risks and Uncertainties”**

It appears that SOP 94-6 contains a significant amount of thought and guidance that relates to risk and dependency. The following includes excerpts from the statement and comments as to how the guidance relates to intergovernmental risk and dependency:

#### **Paragraph .01**

The volatile business and economic environment underscores a need for improved disclosure about the significant risks and uncertainties that face reporting entities. In 1987, the AICPA issued the *Report of the Task Force on Risks and Uncertainties* (the Report), which was intended to help standards-setting bodies and others identify practical methods of improving the information communicated to users of financial statements to help them assess those risks and uncertainties.

**Analysis:** To relate to intergovernmental risk and dependency, the two words in the first sentence, “reporting entities,” directly relates to the reporting of state and local governments. The second sentence of this paragraph stresses the need for the financial statement users to have appropriate information. In the case of governments, the users of the financial statements include, but are not limited to, taxpayers and those who invest any type of resources in a government or agency.

#### **Paragraph .02**

The disclosures focus primarily on risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term or the near-term functioning of the reporting entity. The risks and uncertainties this SOP deals with can stem from the nature of the entity's operations, from the necessary use of estimates in the preparation of the entity's financial statements, and from significant concentrations in certain aspects of the entity's operations.

**Analysis:** This paragraph explains that the disclosures of risk and uncertainties should include items that will have an impact within one year, as well as any items that may reflect the risks and uncertainties of the specific business or government.

#### **Paragraph .20**

Vulnerability from concentrations arises because an entity is exposed to risk of loss greater than it would have had it mitigated its risk through diversification. Such risks of loss manifest themselves differently, depending on the nature of the concentration, and vary in significance.

**Analysis:** From a governmental perspective, to have vulnerability from concentrations, the risk of loss is greater than the government’s ability to compensate for that loss.

#### **Paragraph .21**

Financial statements should disclose the concentrations described in paragraph .22, if — based on information known to management prior to issuance of the financial statements — *all* of the following criteria are met:

- a. The concentration exists at the date of the financial statements.
- b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.
- c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

**Analysis:** This paragraph states that this information should be disclosed if it is available prior to the issuance of the annual report or financial statements. The criteria listed would be the same for a government and would focus on concentrations that would have an impact on the government's financial situation.

#### **Paragraph .22**

Concentrations, including known group concentrations, described below require disclosure if they meet the criteria of paragraph .21. (Group concentrations exist if a number of counterparties or items that have similar economic characteristics collectively expose the reporting entity to a particular kind of risk.) Some concentrations may fall into more than one category:

- a. *Concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor.* The potential for the severe impact can result, for example, from total or partial loss of the business relationship. For purposes of this SOP, it is always considered at least reasonably possible that any customer, grantor, or contributor will be lost in the near term.
- b. *Concentrations in revenue from particular products, services, or fund-raising events.* The potential for the severe impact can result, for example, from volume or price changes or the loss of patent protection for the particular source of revenue.
- c. *Concentrations in the available sources of supply of materials, labor, or services, or of licenses or other rights used in the entity's operations.* The potential for the severe impact can result, for example, from changes in the availability to the entity of a resource or a right.
- d. *Concentrations in the market or geographic area in which an entity conducts its operations.* The potential for the severe impact can result, for example, from negative effects of the economic and political forces within the market or geographic area. For purposes of this SOP, it is always considered at least reasonably possible that operations located outside an entity's home country will be disrupted in the near term.

**Analysis:** For a government, the concentrations in the volume of business could be in the form, for example, of flows from the government to individuals, businesses, and others within the reporting government's jurisdiction. The concentrations of revenue for a government can be seen in the ways a government receives revenue, perhaps through taxes, or state and federal aid, to name a few.

#### **Paragraph .24**

Disclosure of concentrations meeting the criteria of paragraph .21 should include information that is adequate to inform users of the general nature of the risk associated with the concentration. For those concentrations of labor (paragraph .22c) subject to collective bargaining agreements and concentrations of operations located outside of the entity's home country (paragraph .22d) that meet the criteria of paragraph .21, the following specific disclosures are required:

- For labor subject to collective bargaining agreements, disclosure should include both the percentage of the labor force covered by a collective bargaining agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire within one year.
- For operations located outside the entity's home country, disclosure should include the carrying amounts of net assets and the geographic areas in which they are located.

Adequate information about some concentrations may already be presented in diverse parts of the financial statements. For example, adequate information about assets or operations located outside the entity's home country may be included in disclosures made to comply with FASB Statement No. 131. In accordance with paragraph .08 of this SOP, such information need not be repeated. [Revised, June 2004, to reflect conforming changes necessary due to the issuance of FASB Statement No. 131<sup>#</sup> ]

#FASB Statement No. 131, *Disclosures About Segments of an Enterprise and Related Information*, supersedes FASB Statement No. 14.

**Analysis:** This paragraph suggests, in relation to governments, that the disclosure should be presented in such a way that the users are able to gather an overview of the risks of the concentrations. Such risks might, for example, relate to employee positions funded from intergovernmental funds, or concentrations of U.S. securities held by foreign countries that are also held by the reporting government. Some of the information may already be in another area of the comprehensive annual financial report, but, if not, it needs to be disclosed.

### **Excerpts and Analysis from Securities and Exchange Commission Literature**

The following excerpt and analysis comes from the Securities and Exchange Commission Private Securities Litigation Reform Act of 1995, specifically section 102 (c), the safe harbor rule:

#### **Section 102 (c)**

(1) IN GENERAL- Except as provided in subsection (b), in any private action arising under this title that is based on an untrue statement of a material fact or omission of a material fact necessary to make the statement not misleading, a person referred to in subsection (a) shall not be liable with respect to any forward-looking statement, whether written or oral, if and to the extent that:

- (A) the forward-looking statement is —
  - i. identified as a forward-looking statement, and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statement.

**Analysis:** This section states that a company or government may disclose a risk, projection or uncertainty in their annual report in an effort to disclose all important information to users of the annual report. If the risk, projection or uncertainty turns out to be untrue and have a material effect on the annual report, the reporting company or government may fall under the safe harbor rule. This rule provides that the company or government will not be held liable by acting in good faith to provide users with voluntary disclosures, as long as the disclosures are indicated as “forward-looking.”

### **Excerpts and Analysis of GASB Concepts Statement No. 3: Communication in General Purpose External Financial Reports That Contain Basic Financial Statements**

From Concepts Statement No. 3:

#### **Paragraph 13**

The preparer is responsible for producing financial reports that recognize relevant events in the financial statements or that disclose or present messages about such events elsewhere in the financial report. Relevant events are happenings of economic or financial consequence to a reporting unit that the preparer believes have the potential to make a difference in a user’s assessment of the reporting unit and should be considered within the context of the reporting objectives of a financial report.

#### **Paragraph 14**

The preparer is responsible for selecting events that are essential to assist the user in assessing the accountability and making decisions. In selecting the events to be presented in a general purpose external financial report, the preparer is primarily guided by financial reporting standards established by the GASB. Other factors that affect the selection of events are the decision-making tasks for which financial reports are commonly used, the information needed for these decision-making tasks, and the information that can be provided in financial reports that will help such decision making.

### **Paragraph 23**

A mission of the GASB is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports. Standards setters act as intermediaries between preparers and users to help ensure that relevant information is communicated in a consistent manner. The credibility and comparability of governments' financial reports are enhanced when a user knows that the reports are prepared in conformity with publicly promulgated standards established by independent standards setters regarding the selection of relevant events and the measurement and presentation of the effects of those events on the reporting unit.

### **Paragraph 24**

Standards setters help preparers fulfill their role in the communication process by studying the needs of users of financial reports, by identifying the types of information needed by users in making decisions and assessing accountability, and by requiring specific messages to be included in financial reports.

### **Analysis**

These paragraphs detail the role of the preparer and the GASB. The preparer's main responsibility is to the users of the financial reports. Preparers should select events to disclose in the financial statements that would have an impact on the users of the reports. The events that need disclosure should be deemed important and related to the economic and financial situation of the reporting entity, to include, for example, information about intergovernmental flows and investments in the obligations of other governments. The role of the GASB is to provide users with standards to produce financial reports that ensure relevant information is communicated in a consistent manner. Preparers must follow GASB standards to produce annual financial reports, in which detailed information about the financial position of the government or entity is communicated to users of the reports.

## **Excerpts and Analysis of GASB Literature**

### **Potentially Relating to Intergovernmental Financial Dependency and Related Risks**

The GASB, as well as other standards setters, long have believed that certain information about entities' financial risks should be included in their financial reports. The following section of the (GASB staff) paper, from December 2005, provides an overview of the literature that should be considered in relation to intergovernmental risks:

The GASB conceptually believes that information about certain risks should be disclosed in governments' financial reports. Paragraph 79 of Concepts Statement No. 1, *Objectives of Financial Reporting*, states, in part:

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.*
  - a. *Financial reporting should provide information about the financial position and condition of a governmental entity ...*
  - b. *Financial reporting should provide information about a governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources ...*
  - c. *Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources.*

Generally, the risks that governments should conceptually disclose are: a) risks of potential loss of resources that could affect users' assessment of the level of services that can be provided by the governmental entity, and b) the governmental entity's ability to meet its obligations as they become due. A distinction is not made in paragraph 79(c) as to whether the risks of potential loss of resources are from "financial" or "nonfinancial" resources. When discussing intergovernmental risks in this paper, the emphasis has generally been on the risk that a government could potentially lose financial resources that would not allow it to continue to provide the same level of services or potentially meet its financial obligations.

The importance of disclosing information about risks was reemphasized in Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements*. Paragraph 37 of Concepts Statement 3 states, in part:

37. Unlike financial statements, notes may include management's objective explanation of recognized amounts and related known facts, contingencies, certain risks that affect financial statements, subsequent events, measurement methods, accounting policies, and other information essential to understanding the financial statements and to assess compliance with finance-related legal or contractual requirements. However, notes do not include either (a) subjective assessments of the effects of reported information on the reporting unit's future financial position or (b) predictions about the effects of future events on future financial position.

In particular, paragraph 37 stresses the importance that the risks that may be disclosed are those that affect financial statements. Within the context of the discussion of note disclosures in Concepts Statement 3, risks that are disclosed should be essential to a user's understanding of a government's financial position or inflows and outflows of resources.

Numerous examples exist in the GASB's standards that require disclosure of certain information about a government's risks that are essential to a user's understanding of a government's financial position. GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, is a recent example of a standard that required governments to make disclosures of certain financial risks. Statement 40 requires governments to disclose credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk on their investments. Also, governments are required to disclose deposit risks—specifically, custodial credit risk and foreign currency risk. GASB Statement 40 actually amended GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, which largely dealt with a government's credit risk.

Unlike many GASB statements that deal with risk in disclosures, GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, discusses risk in the context of recognition. Governments are allowed to remove debt as a liability from the face of financial statements if that debt is defeased. To be defeased, a number of conditions have to be met. One is that the debtor places assets with an escrow agent in an irrevocable trust solely for the purpose of satisfying the payments of principal and interest of the debt that is to be defeased. The trust only is allowed to own monetary assets that are essentially risk-free as to the amount, timing, and collection of principal and interest. For U.S. debt, this means that the trust must own:

- a. Direct obligations of the U.S. government (including state and local government securities [SLGS] that the U.S. Treasury issues specifically to provide state and local governments with required cash flows at yields that do not exceed Internal Revenue Service [IRS] arbitrage limits).
- b. Obligations guaranteed by the U.S. government.
- c. Securities backed by U.S. government obligations as collateral and for which interest and principal payments on the collateral generally flow immediately through to the security holder. (Paragraph 4 of Statement 7)

Examples of other standards that prominently dealt with risk include GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Issues*; GASB Statement No. 28, *Accounting and Financial*



December 12, 2005

GASB Staff Paper

### **GASB Statement Search for Risk**

On November 21, 2005, Terry Patton and Erin Bartok, both GASB staff, conducted a search of GASB statements, interpretations, technical bulletins, concept statements, NCGA statements and interpretations, along with miscellaneous footnotes for information regarding risk. Possible and clear implications were noted throughout the literature. For access to the annotated research that presents the entire portion of the document in which “risk” is referenced, and for remarks on possible implications of these instances, visit the following address online, at: <http://www.cbh.com/intergovernmentalreport>.

The words “risk” or “risks” were found in the following literature:

#### **GASB Statements**

- Statement 2
- Statement 3
- Statement 5
- Statement 7
- Statement 9
- Statement 10
- Statement 11
- Statement 14
- Statement 17
- Statement 18
- Statement 19
- Statement 20
- Statement 24
- Statement 25
- Statement 26
- Statement 27
- Statement 28
- Statement 29
- Statement 30
- Statement 31
- Statement 32
- Statement 34
- Statement 35
- Statement 38
- Statement 40
- Statement 42
- Statement 43
- Statement 44
- Statement 45
- Statement 47

## **GASB Interpretations**

- Interpretation 3
- Interpretation 4
- Interpretation 6

## **GASB Technical Bulletins**

- Technical Bulletin 87-1
- Technical Bulletin 94-1
- Technical Bulletin 97-1
- Technical Bulletin 98-1
- Technical Bulletin 99-1
- Technical Bulletin 03-1
- Technical Bulletin 04-2

## **GASB Concepts Statements**

- Concept Statement 1
- Concept Statement 3

## **NCGA Statements**

- NCGA Statement 4

## **NCGA Interpretations**

- Interpretation 11

## **Miscellaneous Footnotes**

- Interpretation 4 Footnote 1

**Note:** From the above search, the authors found that the following quoted materials contained the most direct references to transactions and subjects relating to, or possibly relating to, intergovernmental financial dependency and related risks:

### **GASBS7, Par. 4**

4. Debt is considered defeased in substance for accounting and financial reporting purposes if the debtor irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, and the possibility that the debtor will be required to make future payments on that debt is remote. The trust is restricted to owning only monetary assets that are essentially risk-free as to the amount, timing, and collection of interest and principal. The monetary assets should be denominated in the currency in which the debt is payable. For debt denominated in U.S. dollars, essentially risk-free monetary assets are limited to:

- a. Direct obligations of the U.S. government (including state and local government securities [SLGS] that the U.S. Treasury issues specifically to provide state and local governments with required cash flows at yields that do not exceed Internal Revenue Service [IRS] arbitrage limits).
- b. Obligations guaranteed by the U.S. government.
- c. Securities backed by U.S. government obligations as collateral and for which interest and principal payments on the collateral generally flow immediately through to the security holder.

In addition, the monetary assets held by the trust must provide cash flows (from interest and maturity of those assets) that approximately coincide, as to timing and amount, with the scheduled interest and principal payments on the defeased debt. However, some securities described above can be paid before their scheduled maturities and so are not essentially risk-free as to the timing of the collection of interest and principal. As a result, they do not qualify for defeasance purposes.

## **GASBS10, Par. 5**

5. For public entity risk pools, the Board has more specifically identified those groups it believes are the primary users of external public entity risk pool financial reports:
- a. Pool participants and those considering pool participation.
  - b. Legislative and oversight bodies (such as state regulatory bodies).
  - c. Reinsurers and excess insurers.
  - d. Investors and creditors.

### **FASAB Pronouncement Search for Risk**

On November 22, 2005, Wendy Payne, Executive Director of the Federal Accounting Standards Advisory Board (FASAB), provided GASB with FASAB documents that include information about risk. The following quoted paragraphs are those deemed most relevant to the topic of reporting intergovernmental financial dependency and related risks.

#### **FASAB CONCEPT 1**

43. A financial analyst on Wall Street, when asked about federal financial reporting, is likely to think of the “Daily Treasury Statement” and the “Monthly Treasury Statement of Receipts and Outlays of the United States Government.” Some financial analysts study these Treasury reports regularly to assess the effect of cash flows on bank reserves and the size of the government's borrowing requirements. The federal government's borrowing is viewed as free of default risk because of the government's ability to tax and to create money. The power to tax depends on the government's willingness to tax and the strength of the economy.

54. Further, providing for the nation's general welfare is a broad responsibility that involves multiple goals. There is no single measure of success (like “return on investment” or “earnings per share”). Goals often are not explicitly defined in quantifiable terms and sometimes conflict with each other. Relevant measures of performance are usually nonfinancial. For example, many federal loan programs are charged with two conflicting goals: (1) to operate as a fiscally prudent lender and (2) to provide high-risk lenders with credit.

100. Information is needed on the government's exposure and risks associated with deposit insurance, pension insurance, and flood insurance. People need to know about likely future expenditures for cleaning up nuclear weapons sites and military bases. They want information that will help them assess the likelihood and amount of future claims that might arise from government-sponsored enterprises.

103. Users at all levels need information on internal controls and the adequacy of financial management systems. Citizens want assurances that systems and controls are in place to protect the resources they supply to the government. They want to know that operating procedures and processes provide reasonable assurance that those resources are used economically and efficiently for the purposes intended. Congress, executives, and program managers need to demonstrate to those to whom they are accountable that they have, in fact, protected those resources and used them well. Users want to know, for example, that agency heads have determined that internal controls are adequate, that basic financial statements are auditable, and that high-risk areas have been identified and addressed.

141. Information relevant to this objective may include disclosures of financial risks that are likely or reasonably possible from sources such as government-sponsored enterprises, deposit insurance, and disaster relief programs. It could also include information such as:

- the long-term financial implications of the budgetary process,
- the status of trust funds, and
- backlogs of deferred maintenance.

181. Information about financial position can be conveyed in a variety of schedules, notes, projections, and narrative disclosures. Among the most important of these is management's "discussion and analysis" of known trends, demands, commitments, events, and uncertainties. For federal reporting entities, management's discussion and analysis might address such topics as:

- budgetary compliance;
- internal control systems;
- capital resources and investments;
- service efforts, accomplishments, and results of operations; and
- the reasonably possible future impact of known trends, risks, demands, commitments, events, or uncertainties that may affect future operations.

263. Because the government spends such large amounts of monies, taxpayers and other citizens are naturally concerned that the resources they supply are being protected from fraud, waste, and abuse and that the errors are minimal. They want to know that controls are in place and operating effectively and that problems are being quickly identified and corrected. They are particularly concerned that identified high risks are addressed and that adequate funds are devoted to eliminating the risk.

264. This concern is not just with the monies expended directly by the government. It also extends to the monies expended by the individuals and organizations that receive government contracts or grants.

## **FASAB CONCEPT 2**

44. The indicative criteria for determining whether an organization not listed in the "Federal Programs by Agency and Account" section of the budget is nevertheless part of a financial reporting entity are as follows:

6. It has a fiduciary relationship with a reporting entity, as indicated by such factors as the ability of a reporting entity to commit the other entity financially or control the collection and disbursement of funds; and other manifestations of financial interdependency, such as a reporting entity's responsibility for financing deficits, entitlement to surpluses (although not necessarily the assets acquired from failed units), or the guarantee of or "moral responsibility" for debt or other obligations.

## **FASAB CONCEPT 3**

9. MD&A should address:

- the entity's structure, mission, goals, and objectives, with indicators of its performance;
- actions taken or planned to improve performance, when appropriate;
- the financial statements;
- systems, internal controls, and legal compliance, including corrective action taken or planned; and
- the future effects of existing, currently-known demands, risks, uncertainties, events, conditions, and trends. MD&A may also address the possible future effects of anticipated future demands, events, conditions, trends, etc. that management believes would be important to the reader of the report.

30. Use of Estimates — MD&A should concisely explain the use of estimates where that is important to understand issues discussed in MD&A, such as the major risks and uncertainties mentioned in paragraph 0 or the key forward-looking information discussed in paragraph 0. For example, the future expenses and the long-term obligations associated with major social insurance programs such as Social Security and Medicare should be discussed in MD&A of the financial report of the relevant reporting entities. These estimates are inherently imprecise and sensitive to several assumptions. Such factors would, therefore, be worthy of discussion in MD&A.

31. Current Demands, Risks, Uncertainties, Events, Conditions, and Trends—MD&A should describe important existing, currently-known demands, risks, uncertainties, events, conditions, and trends – both favorable and unfavorable –that affect the amounts reported in the financial statements and supplementary information. The information called for by this paragraph and paragraph 0 is closely related. Preparers should combine the presentation of this information in whatever fashion is appropriate under the circumstances that apply to the reporting entity.

32. Future Effects of Current Demands, Risks, Uncertainties, Events, Conditions, and Trends—The discussion of these current factors should go beyond a mere description of existing conditions, such as demographic characteristics, claims, deferred maintenance, commitments undertaken, and major unfunded liabilities, to include a discussion of the possible future effect of those factors. (This discussion of possible future effects of existing, currently-known factors is required pursuant to the standards in Standards for Management's Discussion and Analysis.)

33. Future Effects of Anticipated Future Events, Conditions, and Trends—To the extent feasible and appropriate, the discussion should also encompass the possible future effects of anticipated future events, conditions, and trends, although this additional information is not required by the standards for MD&A. For example, MD&A might discuss the possible future effect of anticipated trends in the cost of inputs that may significantly affect future output costs. Other examples include the future effect of anticipated demographic trends, such as declining mortality rates, and the future effects of potential changes in behavior that may be caused by changes in Government programs. Such behavioral changes can greatly affect the future cost of some Governmental programs. For example, such effects can arise if subsidized insurance encourages the people or entities most at risk to participate in insurance programs (“adverse selection”) or encourages risky behavior (“moral hazard”).

34. An anticipated condition such as a prospective demographic trend or potential behavioral change may not, in itself, constitute a contingency or assumed risk that must be recognized, disclosed, or reported pursuant to SFFAS 5. Likewise, it may not be something that must be discussed in MD&A pursuant to the Standards for Management's Discussion and Analysis. Even so, if there is a reasonable prospect of a major effect on the reporting entity due to the anticipated condition, then MD&A should include this information to the extent feasible.

46. The discussion of performance should:

- include both positive and negative results;
- present historical and future trends, if relevant (see paragraphs 0-0 regarding projections of the financial effects of known and anticipated demands, commitments, events, risks, uncertainties, or trends for which a material financial effect is reasonably possible);
- be illustrated with charts and graphs, whenever helpful, for easy identification of trends;
- explain the significance of the trends;
- provide comparison of actual results to goals or benchmarks;
- explain variations from goals and plans; and
- provide other explanatory information that management believes readers will need to understand the significance of the indicators, the results, and any variations from goals or plans.

## **SFFAS 1, Accounting for Selected Assets and Liabilities**

Group analysis.

49 To determine the loss allowance on a group basis, receivables should be separated into groups of homogeneous accounts with similar risk characteristics.

50 The groups should reflect the operating environment. For example, accounts receivable can be grouped by: (a) debtor category (business firms, state and local governments, and individuals), (b) reasons that gave rise to the receivables (tax delinquencies, erroneous benefit payments, trade accounts based on goods and services sold, and transfers of defaulted loans to accounts receivable), or (c) geographic regions (foreign countries and domestic regions). Within a group, receivables are further stratified by risk characteristics. Examples of risk factors are economic stability, payment history, alternative repayment sources, and aging of the receivables.

51 Statistical estimation by modeling or sampling is one appropriate method for estimating losses on groups of receivables. Statistical estimation should take into consideration factors that are essential for estimating the level of losses, including historical loss experience, recent economic events, current and forecast economic conditions, and inherent risks.

### **SFFAS 15, Management’s Discussion and Analysis – Standards**

3. MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions, and trends. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends. Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.

### **SFFAS 18, Amendments to Accounting Standards for Direct Loans and Loan Guarantees (amends SFFAS 2)**

11. (C) Reporting entities should disclose, discuss, and explain events and changes in economic conditions, other risk factors, legislation, credit policies, and subsidy estimation methodologies and assumptions, that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates. The disclosure and discussion should also include events and changes that have occurred and are more likely than not to have a significant impact but the effects of which are not measurable at the reporting date. Changes in legislation or credit policies include, for example, changes in borrowers’ eligibility, the levels of fees or interest rates charged to borrowers, the maturity terms of loans, and the percentage of a private loan that is guaranteed.

### **Excerpts and Analysis of FASB Statement of Financial Accounting Standards No. 105, “Disclosure of Information About Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risks”**

The following quoted paragraphs are excerpts from, and analysis of, FASB Statement of Financial Accounting Standards No. 105. The statement has been superseded by FAS 133:

#### **Paragraph 3**

Some entities previously have disclosed additional information about financial instruments in their financial statements or elsewhere in annual reports to stockholders or regulators, either because of requirements of the regulators of the Securities and Exchange Commission (SEC) or because of requirements of the regulators of particular industries or institutions. Moreover, some entities previously have disclosed additional information beyond that required by generally accepted accounting principles because they believe the information disclosed might be useful to investors, creditors, and other users in better understanding financial instruments and their effects on the entity. For many financial instruments, however, the information disclosed in financial statements has been inadequate.

**Analysis:** From a governmental perspective, this paragraph refers to information that preparers believe to be useful to users of annual reports and that help ensure a better understanding of the financial position of a specific government or agency.

### **Paragraph 5**

The first phase, which resulted in this Statement, includes financial instruments with off-balance-sheet credit or market risk and all financial instruments with concentrations of credit risk—areas many perceive as most in need of improvement.

**Analysis:** For governments, this sentence refers to items that may not be included in the comprehensive annual financial report, but which reflect certain risks that would be beneficial for the users of the CAFR to know.

### **Paragraph 6**

A financial instrument is cash, evidence of an ownership interest in an entity, or a contract that both:

- a. Imposes on one entity a contractual obligation (1) to deliver cash or another financial instrument to a second entity or (2) to exchange financial instruments on potentially unfavorable terms with the second entity.
- b. Conveys to that second entity a contractual right (1) to receive cash or another financial instrument from the first entity or (2) to exchange other financial instruments on potentially favorable terms with the first entity.”

### **Paragraph 13**

Examples of financial instruments with off-balance-sheet risk that are included within the scope of this Statement are outstanding loan commitments written, standby and commercial letters of credit written, financial guarantees written, options written, interest rate caps and floors written, recourse obligations on receivables sold, obligations to repurchase securities sold, outstanding commitments to purchase or sell financial instruments at predetermined prices, futures contracts, interest rate and foreign currency swaps, and obligations arising from financial instruments sold short.

**Analysis:** Many of these examples are the same for a government. The examples are items that should be disclosed, because the disclosure will demonstrate the amount of risk related to the item.

## **Excerpts and Analysis of AICPA Literature**

### **AICPA Statements on Position Search for Risk**

On December 2, 2005, GASB staff member Erin Bartok performed a search of AICPA Statements of Position for guidance that might pertain directly and indirectly to intergovernmental transactions. For access to the annotated research that presents the entire portion of the document in which “risk” is referenced, and for remarks on possible implications of these instances, go to [www.cbh.com/intergovernmentalreport](http://www.cbh.com/intergovernmentalreport).

The search term, “risk” — not:

- “audit risk”
- “control risk”
- “inherent risk”
- “detection risk”
- “fraud”

resulted in hits within the following Statements of Position – Accounting:

#### **Statements of Position – Accounting [ACC]**

*ACC Section 10,000 – Statements of Position – Accounting*

ACC Section 10,330 → SOP 81-1

ACC Section 10,390 → SOP 85-3

ACC Section 10,450 → SOP 90-3

ACC Section 10,500 → SOP 92-1  
ACC Section 10,530 → SOP 92-6  
ACC Section 10,540 → SOP 93-1  
ACC Section 10,570 → SOP 93-4  
ACC Section 10,620 → SOP 94-4  
ACC Section 10,630 → SOP 94-5  
ACC Section 10,650 → SOP 95-1  
ACC Section 10,660 → SOP 95-2  
ACC Section 10,680 → SOP 96-1\*  
ACC Section 10,690 → SOP 97-1  
ACC Section 10,700 → SOP 97-2  
ACC Section 10,760 → SOP 98-7  
ACC Section 10,790 → SOP 99-3  
ACC Section 10,800 → SOP 00-2  
ACC Section 10,810 → SOP 00-3  
ACC Section 10,840 → SOP 01-5  
ACC Section 10,850 → SOP 01-6  
ACC Section 10,860 → SOP 02-2  
ACC Section 10,870 → SOP 03-1\*  
ACC Section 10,880 → SOP 03-3  
ACC Section 10,890 → SOP 03-4  
ACC Section 10,910 → SOP 04-2

\*Note:

- SOP 94-6 was excluded from the search.
- SOP 96-1 was eliminated from search results because it dealt with EPA risk assessment.
- SOP 03-1 was eliminated from search results because it dealt with insurance, mortality, and morbidity risk.

## **AICPA 1987 Report of the Task Force on Risks and Uncertainties**

### **Chapter 3**

Information about current vulnerability to risk due to concentrations—for example, in the enterprise’s assets, customers, or suppliers—other than those generally known to be associated with the industry or trade in which the entity operates, would be required in the following circumstances: (a) concentrations existing at the report date make the enterprise vulnerable to the risk of severe impact on near-term cash flows or results of operations and (b) it is at least reasonably possible that the events that could cause the severe impact will occur.

The users of a government’s financial reports also require disclosed information about the risks and uncertainties associated with the entity’s cash flows and operations. Governments should also disclose any information or events that could influence the financial position of the entity or impact users of the financial reports.





December 2005 Meeting

**To:** Board Members, David Bean, Terry Patton

**From:** Ed Mazur

**c:** GASB staff, meeting observers

**Date:** December 12, 2005

**Re:** Transmittal of "Project Proposal and Potential Prospectus Information Regarding Reporting and/or Disclosure of Intergovernmental Financial Dependency And Related Risks"

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Attached for your review and consideration is a project proposal on intergovernmental financial dependency and related risks. This proposal is the result of a continuing evolution of thought that has resulted from discussions with members of the Board, with staff, and with other professionals with input to the subject. Most especially this version reflects input from members of GASAC who considered the project at their November meeting and recommended its addition as a potential GASB future project.

The proposal includes a specific recommendation that the Board approve placement of this project in the Technical Plan for the first trimester of 2006 as a "**Research Project.**" The proposal also carefully notes, near the end, that this recommended placement and priority is accompanied by specific plans for holding to a minimum the requirement for GASB staff time.

Although this proposal has reached you later than I originally planned, I hope that you will give it your every consideration and find that the ideas and directions for this important project have continued to mature and advance in a constructive direction. As always, I welcome your comments and reactions, and, I hope, your support for the project and its recommendations. Thank you.

## **Project Proposal and Potential Prospectus Information Regarding Reporting and/or Disclosure of Intergovernmental Financial Dependency And Related Risks**

### **Objective of Project**

This project's objective is to determine the need and desirability of creating a new standard for reporting and/or disclosure requirements specifically associated with intergovernmental financial dependency and related risks. (Note: The intention is that this project provide the Board with (a) background information, (b) the identification of specific reporting and/or disclosure issues, (c) the identification of all relevant existing authoritative pronouncements of standards setters, and (d) a clear understanding of how the reporting of state and local governments can be improved that is sufficient for the Board to begin deliberations).

### **Scope of the Project**

This project will focus principally on two matters. The first matter will be the need, and most effective methods, for consolidating information concerning the extent and importance of intergovernmental financial dependency and presenting such consolidated information in conjunction with the preparation of basic financial statements, Management's Discussion and Analysis (MD&A), and other required supplementary information (RSI) under Statement 34, and the preparation of supplemental information under Statement 44.

The second matter will be the need, and most effective methods, for preparing and presenting disclosures of risks associated with a government's intergovernmental financial dependencies.

The project will cover intergovernmental financial dependencies between each level of government, to include federal to state, state to local, and federal to local.

The project will not consider future projections, but will only focus on information reported for the period, changes from the prior period, and trends in information reported in prior periods.

### **Reasons for the Project**

Pervasiveness of Dependency and Risks. The three levels of government in the United States exchange tremendous amounts of revenues and hold significant amounts of each other's promises as assets. Although often viewed as separate elements of society by the citizenry, these governments are intertwined through series of overlapping programs and activities that are material, often vital to the provision of services, and almost always complex. Even when the direct operating activities of one level of government seem to be isolated from another level of government, they often occur within the communities of another government and therefore impact the economic welfare and resources of that community.

Because of the way individual intergovernmental programs have evolved they are often viewed as independent activities immune from what maybe occurring within, or impacting upon, other programs. To the extent that changes in one program area can be isolated from impacting another program, this appearance of independence maybe understandable. However, when that insulation breaks down, then programs will be impacted by what is happening outside of their own parameters.

Experts known for their independence and objectivity, to include the U.S. Comptroller General and the Chairman of the Federal Reserve, have been warning the nation of a growing confluence of circumstances that, in time, will impact governments at every level. Rapidly changing demographics in the nation are building up increasing demands for promised social security and medical benefits, while at the same time the country's growth in its productive workforce is declining. Changes in the use of debt financing by citizens and the Federal government, and the absence of national savings are creating other potentially conflicting circumstances. While to some extent, conflicting and countervailing forces have always been present in American society, their current arrangement and extraordinary size are without precedent. As these forces play out they will impact government at each level directly, and as each level of government reacts it will in turn impact other levels of government.

Why this Matter is Important to Financial Statement Users. The question before the Board is whether these changes and conflicts should play out while users are left to assess on their own what is occurring and why, or should the Board, instead, create and issue a standard that will more directly assist financial statement users to understand intergovernmental financial dependencies, understand how the related risks may present themselves, and to be able to note at the earliest occasion when changes begin impacting the financial position, fiscal capacity, service capacity, and service performance of governments.

The current standards of the GASB do not directly address the issues raised by this project. Although some recognition and display of intergovernmental revenues on state and local financial statements has occurred, there is no consolidated information presented about such either financial dependencies, or disclosure of the risks associated with these dependencies. The one small exception occurs in Statement 40 on Deposits and Investment Risks, which actually exempts certain information about intergovernmental risk from being disclosed. (Note: For additional specific information about GASB pronouncements see the discussion under Relevant Information below **Attachment A** entitled "Analysis of GASB Relevant Literature Potentially Pertaining to Intergovernmental Financial Dependency And Related Risks.")

Support for this Project. This project, in part, came to the attention of the Board through the public awareness program of the Government Accountability Office, initiated in September 2003, by the U.S. Comptroller General, who is also a member of the Government Accounting Standards Advisory Committee (GASAC). It was also stimulated, in part, by a August 2005 resolution of the National Association of State Comptrollers, Auditors, and Treasurers (NASACT), which is a participant organization of GASAC. **Attachment B** is a listing of "Potential Individuals Who May Help Research Intergovernmental Financial Dependency and Related Risks, a considerable number of whom have already committed to supporting this project through such efforts as the provision of information, the definition of issues, and the review of tentative materials.

As noted above, a standard resulting from this project would change the reporting and/or disclosure practices of all states, all significant local governments, and, at least indirectly, the practices of all smaller or special purpose governments. The users of the financial statements of these governments will therefore directly benefit from being able to readily understand the degree of intergovernmental financial dependency existing as well as the risks associated with or actively impacting the dependency.

Because of the size and impact of intergovernmental financial dependencies and the acknowledgement that risks do in fact exist, and selected cases are already showing an impact, the members of GASAC, at their November meeting voted to recommend to the GASB that this project be added to the Board's list of potential projects.

Importance of Project Timing. The timing of this project is very important. Working under the most favorable conditions, GASB would not be in a position of placing this project on its active agenda until the second trimester of 2006, with the issuance of an eventual standard occurring in mid to late 2007 at the earliest. Given that such a statement would likely be effective for years beginning after June 15, 2008, the first financial statements of state and local governments reflecting new reported amounts or disclosures would be for years ending June 30, 2009. Experts who have published and addressed the risks associated with intergovernmental financial dependency, or closely related topics, have forecasted that the occurrence of events and the evolution of circumstances that will impact the historic financial exchanges between levels of government will occur and/or accelerate during the period of 2005 through 2015. Accordingly, the benefits from this project will be maximized if this project is addressed by the GASB on a continuing research basis during the first trimester of 2006, and then, hopefully, as an active project beginning in the trimester thereafter.

## **Relevant Literature**

**Attachment C** is a listing of "Reference Materials Including Potential Descriptions of Risks Associated with Intergovernmental Financial Dependency." While by no means a fully complete listing of available resources, this listing nevertheless contains publications, reports, analyses, presentations, and articles that are directly relevant to this project and which either offer information about the size and extent of financial dependencies, or the potential risks associated with the flows between governments or stocks of assets held.

Extracts have been made of authoritative pronouncements of GASB, FASAB, and AICPA for the purpose of identifying element of those pronouncements that address the definition and handling of risk. Similar extracts will be made of the pronouncements of FASB and the SEC. A preliminary assessment of the GASB extracts to determine their relevance to this project has been made and the others need to be carried out.

**Attachment D** is the preliminary analysis of GASB pronouncements including GASB concept statements. It is entitled "Analysis of GASB Relevant Literature Potentially Pertaining to Intergovernmental Financial Dependency And Related Risks."

Although there has not yet been identified any particular attention given to this area in academic research, the attached listing of reference materials does show considerable interest and effort on the part of various non-profit research institutions.

## Major Issues

Tentative Issues. Attached are two listings that seek to make tentative identification of some of the risks, or conditions leading to risks, associated with intergovernmental financial dependency. **Attachment D** is entitled “ Listing of Representative Overall National-Level Risks Relating to Intergovernmental Financial Dependence.” **Attachment E** is entitled “Listing of Specific Risks to State and Local Governments, or Conditions that May Indicate Such Risks, from Intergovernmental Financial Dependency.”

Specific Issues. The following are at least four issues that should be considered:

1. **Should amounts reported on the face of a government’s financial statements be disaggregated to make financial interdependency more clear? (For example, should revenues be disaggregated to show amounts that a local government receives from federal or state governments?)**
2. **What kinds of disclosures associated with intergovernmental financial dependency and related risks should be made?**
3. **What are the risks relating to intergovernmental exchanges, flows and assets held that might impact the financial position and results of operations of a state or local government?**
4. **Are small or special purpose governments exposed to intergovernmental financial dependency risks in the absence of their receiving significant revenues from other levels of government?**

Alternative Courses of Action. It is most likely that this project when brought under active Board deliberation will result in a Standard for new reporting and/or disclosure requirements. It may also result in amendments to Statements 34 and 44 as they relate to MD&A, RSI, and Supplemental Information prepared in conjunction with the government’s basic statements.

## Initial Project Plan

Research Plan for Addressing Issues. The proposed plan would be to conduct active research during the first trimester of 2006, on issues to include, but not be limited to the following:

1. Identification of all material intergovernmental revenue flows, and holdings of the debt of other governments as investments
2. Refinement of definition of related risks
3. Completion of assessment of GASB and pronouncements of other standards setting bodies
4. Conduct other inquiries as listed on the **Attachment F**, entitled “Illustration of Elements of Work plan for Conducting Research and Formulating Issues for Board Deliberation Concerning Reporting and/or Disclosure of Intergovernmental Financial Dependency and Related Risks.”

Timetable for completing project. As noted above it is proposed that the Board approve ongoing research efforts on this project through the first trimester of 2006, in preparation for receiving and considering a refined Project Prospectus in conjunction with the Board’s consideration of the Technical Plan proposed for the second trimester of 2006. The goal would be to enable the Board, weighing other priorities, to adopt the project for active deliberation beginning in the second trimester of 2006. Assuming that progress went exceptionally well, the Board could possibly consider issuing an ED by June 2007, or later that calendar year.

Budget—Staff Time. This project is put forward with the continuing understanding that current demands on staff time are limited, at least through the first trimester of 2006. Accordingly, it is proposed that Board and Staff resources be limited principally to Ed Mazur and Terry Patton, the later of whom will lead the assessment of GASB and other standards setting body pronouncements and guide the development of specific refinements of the Project Prospectus.

It is proposed that the Board approve the naming of a Task Force for the project as a means of supporting continuing research and the refinement of the Project Prospectus.

Finally, it is proposed that the Board permit the project to benefit from time and effort offered by various academic departments, through their faculty and staff, who have express interest in supporting the project.

## Recommendation for Placement on Technical Plan Agenda

It is recommended that this project be approved as “**Research Project**” for the first trimester of 2006.

**Intergovernmental Financial Risks  
Independent Study  
(Staff Correspondence)**

The Governmental Accounting Standards Board (GASB) is conducting research on intergovernmental financial risks that will benefit from the research that you conduct in this independent study for the Master of Accountancy in Governmental Accounting program at Rutgers Business School. In essence, you will be following the same procedures that a GASB project manager would on a project—only on a more limited scale.

The final product from your research will be the preparation of a Board memorandum with staff recommendation. (The format for the memorandum is included as Appendix A to this assignment.) In the memorandum, you will consider the pros and cons of various options for reporting or disclosing information about intergovernmental financial risks and make a recommendation on *whether* and *how* information about intergovernmental financial risks should be reported or disclosed in a government's financial report.

In addition to the memorandum, you will be gathering certain information from the 50 Comprehensive Annual Financial Reports (CAFRs) that you review. The detailed findings of the review of the 50 CAFRs and other information that you gather regarding the 50 governments will also need to be submitted (possibly in an Excel spreadsheet). The grade for the course will be based on the quality and thoroughness of the memorandum and detailed findings. The memorandum and detailed findings are due by December 8, 2006 and can be e-mailed to tkpatton@gasb.org. After you read this assignment, please call me to discuss any questions that you may have.

*Background for project.* Much of the revenues received by some state and local governments come from other levels of government. Particularly, state and local governments are dependent upon grants from the federal government, and local governments are dependent upon grants from state governments. Some individuals have expressed concern about the ability of governments to continue their current level of spending. If government spending is not sustainable, governments dependent upon other governments for revenues could be adversely affected. Currently, the GASB does not require governments to disclose information about intergovernmental financial risks in their financial statements.

*Issue:* Should the GASB require information about intergovernmental financial risks (that is, the level of a government's dependency on revenues from other governments) to be recognized separately on the face of a government's financial statements or disclosed in the notes to the financial statements?

*Research to be Conducted:* Fifty Comprehensive Annual Financial Reports (CAFRs) will be reviewed to assess the magnitude of intergovernmental financial interdependency and to gain an understanding of information about intergovernmental financial risks that currently may be found in a government's financial reports. The review should include reviewing the government's financial statements, including the notes to financial statements, and management's discussion and analysis. The letter of transmittal may also be reviewed to determine whether intergovernmental financial risk information is discussed.

**Select Sample**

Select 50 organizations to review in the categories as follows:

States	5
Counties	10
Cities	10
School Districts	5
Transit Authorities	5
Airports	5
Water/Sewer Authorities	5
Colleges/Universities	5

Selection of individual organizations need not be made using a statistical method, as the goal is develop a general understanding of the significance of intergovernmental revenues to governments, not to extrapolate this information to a population. However, the organizations selected within each category should be diverse with respect to size and geographical location. Also, verify that the organization's comprehensive annual financial report (and possibly the single audit report if intergovernmental revenue is found by reviewing it) is readily available on the internet. Note that a state selected will likely include and can serve as a selection in the college/university category. Likewise, some counties and cities include school districts, transit authorities, or water/sewer authorities as part of their reporting entity and can serve as a selection in both categories.

The US Census Bureau at: <http://www.census.gov/govs/www/index.html> provides links to detailed lists of all governmental entities in the United States as well as a link to the Federal Audit Clearinghouse that provides information by CFDA number on federal awards received by individual governments.

**Review Quantitative Data**

For each organization selected, obtain the following data from its most recent available CAFR:

	<b>Governmental activities/funds</b>	<b>Proprietary activities/funds</b>
Intergovernmental revenues-total		
Local, if available		
State, if available		
Federal, if available		
Total revenue		
IG as % of total revenue		

The name of the government and the link to its website should be included in the data that is submitted by December 8, 2006.

For governmental activities, it is likely that information about intergovernmental revenues will be available only from the governmental fund financial statements. On the statement of activities, intergovernmental revenue likely will be a large component of the operating and capital grant categories and any nonprogram-specific intergovernmental revenues would appear as a line item in general revenues; however, it is not appropriate to assume that all operating and capital grants are intergovernmental in nature.

For proprietary activities, again the proprietary fund statements will likely include a greater level of detail to assist in determining the amount of intergovernmental revenues. For these funds, the category of capital contributions also should be evaluated, and this likely will require contact with the government. Capital contributions may be from private individuals, such as donations of utility lines in areas of new construction, but also may include intergovernmental contributions, such as runway improvement grants to airports. If more detailed information about the nature of intergovernmental revenues is available, include it in the analysis. If neither the government-wide nor fund financial statements provide sufficient detail to identify this information, obtain the information from other sources—such as by contacting local governmental personnel or reviewing the entity’s single audit report or from other information at the Federal Audit Clearinghouse.

The final memorandum submitted to the GASB should explain where the intergovernmental revenues information was obtained. That is, was the information available from reviewing the CAFR? If so, where was the information found? If the information was not available from the CAFR, where did you get the information?

**Review Qualitative Data**

Additionally, for each of the organizations selected, review both the management’s discussion and analysis and relevant note disclosures to determine if any other information about intergovernmental financial risks related to intergovernmental revenues is provided. Include a summary of each government’s discussion of this information, if provided, in the appendix to the memorandum, and include an overall summary of these findings in your memorandum.

## MEMORANDUM

**TO:** GASB Board Members  
GASB Director of Research and Technical Activities  
**CC:** Dr. Robert Werner, Rutgers Business School Advisor  
GASB Staff  
All other interested parties  
**FROM:** Debra Miller, Rutgers's Graduate Student  
**DATE:** December 31, 2006  
**RE:** Independent Study Project - Intergovernmental Financial Risk

### Introduction

This fall I had the opportunity to participate in a new independent study project under the guidelines of the Rutgers Business School and in conjunction with the Governmental Accounting Standards Board (GASB). This project was to follow many of the same procedures as a GASB project manager - only on a limited basis - with regards to the GASB project of intergovernmental financial risk.

I was given the following information as the background of this project:

"Much of the revenues received by some state and local governments come from other levels of government. Particularly, state and local governments are dependent upon grants from the federal government, and local governments are dependent upon grants from state governments. Some individuals have expressed concern about the ability of governments to continue their current level of spending. If government spending is not sustainable, governments dependent upon other governments for revenues could be adversely affected. Currently, the GASB does not require governments to disclose information about intergovernmental financial risks in their financial statements."

This memorandum will discuss the issue of intergovernmental financial risk, analysis of that risk found through the review of fifty (50) financial reports, assessment of the issues including any alternatives; and my personal recommendation based on this memorandum. In summary, I am favor of GASB (a) defining intergovernmental revenues and (b) having the financial risk of certain types of intergovernmental revenues described in the notes of the financial reports.

### Identification of Issue

This memorandum is discussing the intergovernmental financial risk between one government to another government. It is not meant to discuss the financial risk for the taxpayer when different levels of government are no longer able to offer social and/or public service programs that are currently available to the taxpayer.

The background of the project described the moving of revenues from one level of government to another level of government. The background also described that the recipient government begins to rely on the revenue flow for its current spending and that is where the concern for financial risk comes into play.

Should a government describe its reliance on revenues from other governments? Or as stated in my project description: Should the GASB require information about intergovernmental financial risks to be recognized separately on the face of a government's financial statements or disclosed in the notes to the financial statements?

### Facts Pertinent to Issue

1. Financial reports discuss the intergovernmental financial risk related to component units, joint ventures, and other related organizations. The financial report details which organization is legally responsible and what percentage is applicable to each government. Financial reports discuss the contingent liability (financial risk) of grant revenues in the notes of the financial statements. Financial reports also discuss pooled investment funds managed by other government entities.
2. Many financial reports have an intergovernmental revenue line item that substantially material to the total revenue collected by the government. This line item is not discussed in detailed as what it is comprised of nor is it discussed what "conditions or terms" may be attached to the revenue. A novice reader would not be likely to infer that if their state is having revenue problems that it may flow down to their city, school, library or other special revenue government.
3. Existing Literature available from GASB:
  - Majority of GASB Statements utilize the word "risk" or "risks"
  - GASB Interpretations 3, 4, and 6 utilize the word "risk" or "risks"
  - GASB Technical Bulletins 87-1; 94-1; 97-1; 98-1; 99-1; 03-1; and 04-2 utilize the word "risk" or "risks"
  - GASB Concept Statements 1 and 3; NCGA Statement 4; and NCGA Interpretation 11 utilize the word "risk" or "risks"

#### 4. Relevant Literature from GASB:

- Paragraph 79 of Concepts Statement No. 1, Objectives of Financing Reporting states, in part:  
*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.*
  - a. Financial reporting should provide information about the financial position and condition of a governmental entity...*
  - b. Financial reporting should provide information about a governmental entity's physical and other non-financial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources...*
  - c. Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources.*
- The main emphasis of this intergovernmental risks project was "would the government entity suffer if the other government entity didn't provide the revenue as promised."
- Paragraph 37 of Concepts Statement 3 states, in part:  
*37. Unlike financial statements, notes may include management's objective explanation of recognized amounts and related known facts, contingencies, subsequent events, measurement methods, accounting policies, and other information essential to understanding the financial statements and to assess compliance with finance-related legal or contractual requirements....*

#### 5. Findings from research of 50 Financial Reports:

- There are actually three types of intergovernmental revenues. I have named them to make it easier to understand the differences between the types. The first is "agency" intergovernmental revenues, the second is "shared" intergovernmental revenues, and last is "assistance" intergovernmental revenues.
- "Agency" intergovernmental revenues are revenues that one central government entity collects for multiple government entities and disburses on a periodic basis. Example: property taxes. The note section of the financial report usually discussed this point of collection and disbursement.
- "Shared" intergovernmental revenues are revenues that have an agreement that states that one central government entity collects for one/multiple government entities and disburses on a periodic basis based on allocation. Example: sales taxes. The note section of the financial report usually discussed this type of collection and disbursement.
- "Assistance" intergovernmental revenues are where one government provides additional funding to another government entity because of the type of service they provide. Example: state aid. Most of the financial statements are silent on this type of intergovernmental revenues. This is the type of intergovernmental financial risk that is of concern and should be the focus of any changes to the financial statements.
- Other intergovernmental financial type risks such as: component units, joint ventures, investment pools, and grant funding were discussed in the financial reports.

#### **Analysis of Facts**

I read fifty (50) different types of financial reports with my focus on looking for intergovernmental financial risks. After reading all the reports, I found that I had two main thoughts from reading the reports. They were:

- The different types of intergovernmental revenues need to be officially named and recognized by descriptions. Not all intergovernmental revenues need to be recognized with the same focus since they are "pass-through" revenues or "agency" revenues.
- "Assistance" intergovernmental revenues is the type of financial risk that needs to be recognized in the notes of the financial statements because of the financial reliance in providing the day-to-day operations of many government entities.

The facts support the need for additional information to be placed in the financial statements. However, could there be an alternative solution? In my opinion, the alternative solution would be to pass around the information and let the individual financial preparer put in the additional information without guidance. This would give the GASB additional research from other preparers.

PRO: (1) Receive multiple interpretations from different financial statement preparers. (2) Issue guidance after looking at different interpretations.

CON: (1) Not all preparer's of financial statements stay informed and will not add additional information unless they are required to do so. (2) No guidance will mean information may not be consistently presented.

#### **Recommendation**

**Issue:** Should the GASB require information about intergovernmental financial risks to be recognized separately on the face of a government's financial statements or disclosed in the notes to the financial statements?

**Recommendation:** Yes. GASB should first define intergovernmental revenue types and then recommend that assistance type of intergovernmental financial risk should be included the notes of financial reports.



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### Independent Study Charts (resulting from the Miller Research)

Name of Organization:	City of Powell Ohio	City of Upper Arlington Ohio	City of Delaware Ohio	City of Columbus Ohio
<b>Website link:</b>	<a href="http://www.ci.powell.oh.us">www.ci.powell.oh.us</a>	<a href="http://www.us-ohio.net">www.us-ohio.net</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>
<b>Fiscal Year Year Ending used:</b>	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2005
<b>Basic Data:</b>				
Intergovernmental Revenues - Total	753,933	4,527,390	5,354,783	n/a
Local, if available				
State, if available				
Federal, if available				
Total Revenue	7,751,370	32,539,781	26,117,564	n/a
IG as % of total revenue	9.73%	13.91%	20.50%	n/a
<b>Financial statement used:</b>	SRECFB - Govt (1)	SRECFB - Govt (1)	SRECFB - Govt (1)	n/a
<b>Proprietary Funds</b>	None	Yes	Yes	Yes
Capital Contributions		610,335	2,984,965	n/a
Total Net Assets at year-end		17,949,428	63,217,418	n/a
CC as % of total net assets at year-end		3.40%	4.72%	n/a
<b>Financial statement used:</b>	n/a	SRECFNA - Prop (4)	SRECFNA - Prop (4)	n/a
<b>Review</b>				
What document was reviewed?	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)
Did the Letter of Transmittal mention any intergovernmental risk?	No	No	No	No
Did the MD&A (3) mention any intergovernmental risk?	No	No	No	No
Did the Statements mention they had intergovernmental revenue?	Yes	No	Yes	No
That they owed other governments?	Yes	Yes	No	No
Did the Notes mention intergovernmental risk?	No	No	No	No
Could the reader infer there might be risk?	Yes	No	Yes	Yes

Columbus Regional Airport Authority Ohio	Liberty Community Infrastructure Financing Authority Ohio	Solid Waste Authority of Central Ohio Ohio	Ohio Water Development Authority Ohio	Central Ohio Transit Authority Ohio
<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>
December 31, 2005	December 31, 2002	December 31, 2005	December 31, 2005	December 31, 2005
n/a	n/a	n/a	n/a	21,325,653
				11,055,758
				1,184,646
n/a	n/a	n/a	n/a	67,335,428
n/a	n/a	n/a	n/a	31.67%
n/a				SRECNA (5)
Yes	Yes	Yes	Yes	Yes
22,004,874	-15,128,829	n/a	n/a	n/a
461,033,830	-22,092,616	n/a	n/a	n/a
4.77%	68.48%	n/a	n/a	n/a
SRECNA (5)	SRECAD (6)	n/a	n/a	n/a
CAFR (2)	Financial Statements	CAFR (2)	Financial Statements	Financial Statements
Yes	n/a	No	n/a	n/a
Yes	No	Yes	No	No
Yes	No	No	No	Yes
Yes	Yes	No	No	No
Yes	Yes	No	No	No
Yes	Yes	Yes	Yes	Yes

<b>Name of Organization:</b>	Bowling Green State University	Ohio State University	Franklin County	Delaware County
	Ohio	Ohio	Ohio	Ohio

<b>Website link:</b>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>
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<b>Fiscal Year Year Ending used:</b>	June 30, 2005	June 30, 2005	December 31, 2005	December 31, 2005
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**Basic Data:**

Intergovernmental Revenues - Total	10,090,824	376,842,000	446,133,000	23,083,180
Local, if available	8,459,330	23,225,000		
State, if available	1,445,729	51,800,000		
Federal, if available	185,765	301,817,000		
Total Revenue	233,474,761	2,583,941,000	1,008,427,000	106,069,738
IG as % of total revenue	4.32%	14.58%	44.24%	21.76%

<b>Financial statement used:</b>	SRECNA (5)	SRECNA (5)	SRECFB - Govt (1)	SRECFB - Govt (1)
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<b>Proprietary Funds</b>	Yes	Yes	Yes	Yes
Capital Contributions	3,240,126	n/a	45,000	13,168,290
Total Net Assets at year-end	351,103,792	n/a	16,093,000	161,467,271
CC as % of total net assets at year-end	0.92%	n/a	0.28%	8.16%

<b>Financial statement used:</b>	SRECNA (5)	n/a	SRECFNA - Prop (4)	SRECFNA - Prop (4)
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**Review**

What document was reviewed?	Financial Statements	Financial Statements	CAFR (2)	CAFR (2)
Did the Letter of Transmittal mention any intergovernmental risk?	n/a	n/a	No	Yes
Did the MD&A (3) mention any intergovernmental risk?	No	No	No	No
Did the Statements mention they had intergovernmental revenue?	Yes	Yes	Yes	Yes
That they owed other governments?	No	No	No	Yes
Did the Notes mention intergovernmental risk?	Yes	No	Yes	No
Could the reader infer there might be risk?	Yes	No	Yes	Yes

Upper Arlington City School District Ohio	Olentangy Local School District Ohio	State of Ohio Ohio	State of Oklahoma Oklahoma	City of Tulsa Oklahoma
<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.auditor.state.oh.us">www.auditor.state.oh.us</a>	<a href="http://www.obm.ohio.gov">www.obm.ohio.gov</a>	<a href="http://www.osf.state.oh.us">www.osf.state.oh.us</a>	<a href="http://www.cityoftulsa.org">www.cityoftulsa.org</a>
June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005	December 31, 2005
14,069,868	18,392,419	14,640,717,000	4,493,290,000	58,174,000
12,675,728	16,296,214			
1,394,140	2,096,205	14,640,717,000	4,493,290,000	
78,738,713	118,344,457	40,241,079,000	12,283,698,000	352,459,000
17.87%	15.54%	36.38%	36.58%	16.51%
SRECFB - Govt (1)	SRECFB - Govt (1)			SRECFB - Govt (1)
None	None	Yes	Yes	Yes
		n/a	n/a	n/a
		n/a	n/a	n/a
		n/a	n/a	n/a
n/a	n/a	n/a	n/a	n/a
Financial statements	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)
n/a	No	Yes	Yes	No
No	No	No	No	No
Yes	Yes	Yes	Yes	Yes
No	Yes	Yes	No	No
No	No	Yes	No	Yes
Yes	Yes	Yes	Yes	Yes

<b>Name of Organization:</b>	Pima County Arizona	Horry County South Carolina	Galveston County Texas	Greenville County South Carolina
<b>Website link:</b>	<a href="http://www.pima.gov">www.pima.gov</a>	<a href="http://www.horrycounty.org">www.horrycounty.org</a>	<a href="http://www2.co.galveston.tx.us">www2.co.galveston.tx.us</a>	<a href="http://www.greenvillecounty.org">www.greenvillecounty.org</a>
<b>Fiscal Year Year Ending used:</b>	December 31, 2005	June 30, 2005	September 30, 2005	June 30, 2004
<b>Basic Data:</b>				
Intergovernmental Revenues - Total	278,414,000	18,093,157	15,120,444	32,614,861
Local, if available				
State, if available				
Federal, if available				
Total Revenue	666,417,000	173,360,159	126,382,823	139,882,333
IG as % of total revenue	41.78%	10.44%	11.96%	23.32%
<b>Financial statement used:</b>	SRECFB - Govt (1)	SRECFB - Govt (1)	SRECFB - Govt (1)	SRECFB - Govt (1)
<b>Proprietary Funds</b>	Yes	Yes	Yes	Yes
Capital Contributions	21,926,000	7,967,473	n/a	n/a
Total Net Assets at year-end	489,607,000	139,872,063	n/a	n/a
CC as % of total net assets at year-end	4.48%	5.70%	n/a	n/a
<b>Financial statement used:</b>	SRECFNA - Prop (4)	SRECFNA - Prop (4)	n/a	n/a
<b>Review</b>				
What document was reviewed?	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)
Did the Letter of Transmittal mention any intergovernmental risk?	No	No	No	No
Did the MD&A (3) mention any intergovernmental risk?	No	No	No	No
Did the Statements mention they had intergovernmental revenue?	Yes	Yes	Yes	Yes
That they owed other governments?	No	No	No	No
Did the Notes mention intergovernmental risk?	No	No	No	No
Could the reader infer there might be risk?	No	No	No	No

State of Arizona Arizona	City of Tucson Arizona	City of Yuma Arizona	Yuma County Arizona	Santa Clara Valley Transportation Authority California
<a href="http://www.gao.state.az.us">www.gao.state.az.us</a>	<a href="http://www.ci.tucson.az.us">www.ci.tucson.az.us</a>	<a href="http://www.ci.yuma.az.us">www.ci.yuma.az.us</a>	<a href="http://www.co.yuma.az.us">www.co.yuma.az.us</a>	<a href="http://www.vta.org">www.vta.org</a>
June 30, 2005	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2005
7,714,012,000	266,692,010	36,044,032	58,058,184	68,016,000
	70,681,079			
20,582,310,000	600,667,622	99,040,946	135,369,429	3,011,186,000
37.48%	44.40%	36.39%	42.89%	2.26%
SRECFB - Govt (1)	SRECFB - Govt (1)	SRECFB - Govt (1)	SRECFB - Govt (1)	SNA (7)
Yes	Yes	Yes	Yes	Yes
19,779,000	14,374,575	11,025,117	n/a	96,860,000
2,522,159,000	575,863,343	145,866,169	n/a	2,045,505,000
0.78%	2.50%	7.56%	n/a	4.74%
SRECFNA - Prop (4)	SRECFNA - Prop (4)	SRECFNA - Prop (4)	n/a	SRECFNA - Prop (4)
CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)
No	No	No	No	No
No	No	No	No	No
Yes	Yes	Yes	Yes	Yes
No	No	No	Yes	Yes
No	No	No	No	No
No	No	No	No	Yes

<b>Name of Organization:</b>	City of Myrtle Beach South Carolina	Maricopa Community Colleges Arizona	Greenville County School District South Carolina	Alameda County California
<b>Website link:</b>	<a href="http://www.cityofmyrtlebeach.com">www.cityofmyrtlebeach.com</a>	<a href="http://www.maricopa.edu">www.maricopa.edu</a>	<a href="http://www.greenvillek12.sc.us">www.greenvillek12.sc.us</a>	<a href="http://www.acgov.org">www.acgov.org</a>
<b>Fiscal Year Year Ending used:</b>	June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005
<b>Basic Data:</b>				
Intergovernmental Revenues - Total	11,200,217	n/a	32,614,861	986,224,000
Local, if available				22,362,000
State, if available				701,939,000
Federal, if available				261,923,000
Total Revenue	68,662,915	n/a	139,882,333	1,973,428,000
IG as % of total revenue	16.31%	n/a	23.32%	49.98%
<b>Financial statement used:</b>	SRECFB - Govt (1)	n/a	SRECFB - Govt (1)	SRECFB - Govt (1)
<b>Proprietary Funds</b>				
Capital Contributions	6,068,800	n/a	871,939	n/a
Total Net Assets at year-end	126,001,886	n/a	13,024,491	n/a
CC as % of total net assets at year-end	4.82%	n/a	6.69%	n/a
<b>Financial statement used:</b>	SRECFNA - Prop (4)	n/a	SRECFNA - Prop (4)	n/a
<b>Review</b>				
What document was reviewed?	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)
Did the Letter of Transmittal mention any intergovernmental risk?	No	No	No	No
Did the MD&A (3) mention any intergovernmental risk?	No	No	No	No
Did the Statements mention they had intergovernmental revenue?	Yes	No	Yes	Yes
That they owed other governments?	No	No	Yes	No
Did the Notes mention intergovernmental risk?	No	No	No	No
Could the reader infer there might be risk?	No	No	No	No



State of Delaware Delaware	State of Colorado Colorado	Lane Transit District Oregon	Utah Transit Authority Utah	City of El Cerrito California
<a href="http://www.state.de.us">www.state.de.us</a>	<a href="http://www.colorado.gov">www.colorado.gov</a>	<a href="http://www.ltd.org">www.ltd.org</a>	<a href="http://www.rideuta.com">www.rideuta.com</a>	<a href="http://www.el-cerrito.org">www.el-cerrito.org</a>
June 30, 2005	June 30, 2005	June 30, 2005	December 31, 2005	June 30, 2005
929,703,000	3,831,031,000	616,930,000	5,652,086	4,855,585
		15,000,000		
		26,271,000		
929,703,000	3,831,031,000	575,659,000	5,652,086	
4,421,796,000	12,285,547,000	20,336,092,000	143,694,283	28,099,527
21.03%	31.18%	3.03%	3.93%	17.28%
SRECFB - Govt (1)	SRECFB - Govt (1)	SNA (7)	SNA (7)	SRECFB - Govt (1)
Yes	Yes	Yes	Yes	Yes
105,924,000	40,584,000	13,765,556,000	24,217,386	n/a
2,900,031,000	3,977,171,000	77,761,468,000	624,388,197	n/a
3.65%	1.02%	17.70%	3.88%	n/a
SRECFNA - Prop (4)	SRECFNA - Prop (4)	SRECFNA - Prop (4)	SRECFNA - Prop (4)	n/a
CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)
No	No	No	No	No
No	No	No	No	No
Yes	Yes	Yes	Yes	Yes
No	Yes	No	No	No
No	No	No	No	No
No	No	No	No	No

<b>Name of Organization:</b>	Sewerage & Water Board of New Orleans Louisiana	University of Nebraska Nebraska	District of Columbia Water & Sewer Authority DC	School District of Hillsborough County Florida
<b>Website link:</b>	<a href="http://www.swbnola.org">www.swbnola.org</a>	<a href="http://www.nebraska.edu">www.nebraska.edu</a>	<a href="http://www.dcwaSa.com">www.dcwaSa.com</a>	<a href="http://apps1.sdhc.k12.fl.us">http://apps1.sdhc.k12.fl.us</a>
<b>Fiscal Year Year Ending used:</b>	December 31, 2004	June 30, 2005	September 30, 2005	June 30, 2005
<b>Basic Data:</b>				
Intergovernmental Revenues - Total	n/a	n/a	40,206,000	769,837,000
Local, if available				
State, if available				762,503,000
Federal, if available			24,770,000	7,334,000
Total Revenue	n/a	n/a	272,743,000	1,137,195,000
IG as % of total revenue	n/a	n/a	14.74%	67.70%
<b>Financial statement used:</b>	n/a	n/a	SNA (7)	SRECFB - Govt (1)
<b>Proprietary Funds</b>	Yes	Yes	Yes	Yes
Capital Contributions	22,124,960	n/a	34,578,000	n/a
Total Net Assets at year-end	1,180,072,766	n/a	880,728,000	n/a
CC as % of total net assets at year-end	1.87%	n/a	3.93%	n/a
<b>Financial statement used:</b>	SRECFNA - Prop (4)	n/a	SRECFNA - Prop (4)	n/a
<b>Review</b>				
What document was reviewed?	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)
Did the Letter of Transmittal mention any intergovernmental risk?	No	No	No	No
Did the MD&A (3) mention any intergovernmental risk?	No	No	No	No
Did the Statements mention they had intergovernmental revenue?	Yes	No	Yes	Yes
That they owed other governments?	Yes	No	Yes	Yes
Did the Notes mention intergovernmental risk?	No	No	No	No
Could the reader infer there might be risk?	No	No	No	No

Columbia School District Missouri	San Diego County California	DeKalb County Illinois	City of Rochester New York	Austin Community College District Texas	New York City Water & Sewer System New York
<a href="http://www.columbia.k12.mo.us">www.columbia.k12.mo.us</a>	<a href="http://www.sdcounty.ca.gov">www.sdcounty.ca.gov</a>	<a href="http://www.dekalbcounty.org">www.dekalbcounty.org</a>	<a href="http://www.cityofrochester.gov">www.cityofrochester.gov</a>	<a href="http://www.austincc.edu/">www.austincc.edu/</a>	<a href="http://www.nyc.gov">www.nyc.gov</a>
June 30, 2004	June 30, 2005	November 30, 2005	June 30, 2005	August 31, 2005	June 30, 2004
90,899,536	1,884,660,000	7,750,480	117,380,000	21,080,038	n/a
				1,190,914	
50,488,949	1,080,663,000		85,001,000	2,106,340	
8,543,318	729,725,000		32,379,000	17,782,784	
148,474,582	3,122,178,000	38,198,210	467,820,000	64,685,343	n/a
61.22%	60.36%	20.29%	25.09%	32.59%	n/a
SRECFB - Govt (1)	SRECFB - Govt (1)	SRECFB - Govt (1)	SRECFB - Govt (1)	SNA (7)	n/a
Yes	Yes	Yes	Yes	Yes	Yes
n/a	1,036,000	66,794	n/a	n/a	29,875
n/a	103,405,000	9,738,475	n/a	n/a	3,554,183
n/a	1.00%	0.69%	n/a	n/a	0.84%
n/a	SRECFNA - Prop (4)	SRECFNA - Prop (4)	n/a	n/a	SRECFNA - Prop (4)
CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)
No	No	No	No	No	No
No	No	No	No	No	No
Yes	Yes	Yes	Yes	Yes	No
No	No	No	Yes	No	No
No	No	No	No	No	No
No	No	No	Yes	Yes	Yes

<b>Name of Organization:</b>	Rivanna Water & Sewer Authority Virginia	Dallas/Fort Worth International Airport Texas	Tucson Airport Authority Arizona	Clark County Public Transportation Benefit Area Washington
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<b>Website link:</b>	<a href="http://www.rivanna.org">www.rivanna.org</a>	<a href="http://www.dfairport.com">www.dfairport.com</a>	<a href="http://www.tucsonairport.org">www.tucsonairport.org</a>	<a href="http://www.clark.wa.gov">www.clark.wa.gov</a>
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<b>Fiscal Year Year Ending used:</b>	6/30/2005 & 2004	September 30, 2004	September 30, 2004	December 31, 2004
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**Basic Data:**

Intergovernmental Revenues - Total	n/a	n/a	n/a	n/a
Local, if available				
State, if available				
Federal, if available				
Total Revenue	n/a	n/a	n/a	n/a
IG as % of total revenue	n/a	n/a	n/a	n/a

<b>Financial statement used:</b>	n/a	n/a	n/a	n/a
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<b>Proprietary Funds</b>	Yes	Yes	Yes	Yes
Capital Contributions	n/a	n/a	10,201,190	3,107,083
Total Net Assets at year-end	n/a	n/a	202,658,401	103,906,939
CC as % of total net assets at year-end	n/a	n/a	5.03%	2.99%

<b>Financial statement used:</b>	n/a	n/a	SRECFNA - Prop (4)	SRECFNA - Prop (4)
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**Review**

What document was reviewed?	CAFR (2)	CAFR (2)	CAFR (2)	CAFR (2)
Did the Letter of Transmittal mention any intergovernmental risk?	No	No	No	No
Did the MD&A (3) mention any intergovernmental risk?	No	No	No	No
Did the Statements mention they had intergovernmental revenue?	No	No	No	No
That they owed other governments?	No	No	No	No
Did the Notes mention intergovernmental risk?	No	No	No	No
Could the reader infer there might be risk?	Yes	No	No	No

**Notes:**

(1) SRECFB - Government = Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds

(2) CAFR = Comprehensive Annual Financial Report

(3) MDA = Management Discussion and Analysis

(4) SRECFNA - Prop = Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds

(5) SRECNA = Statements of Revenues, Expenses and Changes in Net Assets

(6) SRECAD = Statements of Revenues, Expenses and Changes in Accumulated Deficit

(7) SNA = Statement of Net Assets

**Independent Study Sample**

	<b>Requested Sample Size</b>	<b>Actual - Coordinating Test Size</b>		
States	5	1	<b>Ohio</b>	
Counties	10	2	Franklin Delaware	
Cities	10	4	Upper Arlington	Columbus Powell Delaware
School Districts	5	2	Upper Arlington Olentangy	
Transit Authorities	5	1	Central Ohio Transit Authority	
Airports	5	1	Columbus Regional Airport Authority	
Water/sewer Districts	5	1	Ohio Water Development Authority	
College/universities	5	2	Ohio State University	Bowling Green University
Other	0	2	Liberty Community Infrastructure Financing Authority	
			Solid Waste Authority of Central Ohio	
	<u>50</u>	<u>16</u>		

	<b>Requested Sample Size</b>	<b>Actual - Non-Coordinating Test Size</b>		
States	5	1	<b>Oklahoma</b>	
Counties	10	2	Alameda, CA Galveston, TX	
Cities	10	3	Myrtle Beach, SC	Tulsa, OK El Cerrito, CA
School Districts	5	1	Hillsborough County School, FL	
Transit Authorities	5	1	Lane Transit District, OR	
Airports	5	1	Clark County Public Transit, WA	
Water/sewer Districts	5	1	District of Columbia Water & Sewer Authority, DC	
College/universities	5	1	University of Nebraska, NE	
Other	0	0		
	<u>50</u>	<u>11</u>		

	<b>Requested Sample Size</b>	<b>Actual - Coordinating Test Size</b>		
States	5	1	<b>Arizona</b>	
Counties	10	2	Pima Yuma	
Cities	10	2	Tucson Yuma	
School Districts	5	0		
Transit Authorities	5	0		
Airports	5	1	Tucson Airport Authority	
Water/sewer Districts	5	0		
College/universities	5	1	Maricopa Community College	
Other	0	0		
	<u>50</u>	<u>7</u>		

	<b>Requested Sample Size</b>	<b>Actual - Non-Coordinating Test Size</b>	
States	5	1	<b>Delaware</b>
Counties	10	2	Horry, SC                      Greenville, SC
Cities	10	1	Rochester, NY
School Districts	5	1	Greenville County, SC
Transit Authorities	5	1	Santa Clara Valley Transportation Authority, CA
Airports	5	1	Dallas/Fort Worth International Airport Authority, TX
Water/sewer Districts	5	1	New Orleans Sewer & Water Board, LA
College/universities	5	1	Austin Community College District, TX
Other	0	0	
	<u>50</u>	<u>9</u>	

	<b>Requested Sample Size</b>	<b>Actual - Non-Coordinating Test Size</b>	
States	5	1	<b>Colorado</b>
Counties	10	2	DeKalb, IL                      San Diego, CA
Cities	10	0	
School Districts	5	1	Columbia, MO
Transit Authorities	5	1	Utah Transit Authority, UT
Airports	5	0	
Water/sewer Districts	5	2	New York Water & Sewer System, NY      Rivanna Water & Sewer Authority, VA
College/universities	5	0	
Other	0	0	
	<u>50</u>	<u>7</u>	

	<b>Requested Sample Size</b>	<b>Total Test Size</b>	<b>States Represented</b>	
States	5	5	1. Ohio	11. Louisiana
Counties	10	10	2. Oklahoma	12. Colorado
Cities	10	10	3. California	13. Missouri
School Districts	5	5	4. Texas	14. Utah
Transit Authorities	5	4	5. South Carolina	15. Illinois
Airports	5	4	6. Florida	16. New York
Water/sewer Districts	5	5	7. Oregon	17. Virginia
College/universities	5	5	8. Arizona	18. Washington
Other	0	2	9. Nebraska	19. District of Columbia
	<u>50</u>	<u>50</u>	10. Delaware	

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## Supplemental Appendix C: Fiscal Wake-Up Call Tour

### The Report

The “Fiscal Wake-Up Call” report, authored by Robert Bixby, Executive Director of the Concord Coalition, gives a clear warning sign to the U.S. about the dangers that the three entitlement programs pose to the federal debt and spending. (<http://www.concordcoalition.org/events/fiscal-wake-up/docs/fwutmemo-070925.pdf>). The reason that these entitlement programs will pose such a problem is the large amount of retiring baby boomers that will start to draw more and more benefits in the coming years and the rising costs of health care. If something is not done soon, both these problems will continue putting the federal fiscal situation onto an unsustainable path leading to severe consequences.

Bixby notes that the government does not currently add up all of its liabilities and obligations, but — if it did — the federal government’s current amount of fiscal exposures would roughly equal \$53 trillion. This would include all the benefits and promises that the government has made through the three major entitlement programs. Several projections have been done by various organizations weighing different fiscal and economic policy decisions, but all of these projections say that the current path is unsustainable unless something is done.

There are several options that Bixby offers in order to avoid the incoming fiscal crisis:

- Raise taxes to pay for the entitlement programs.
- Cut back entitlement benefits to sustainable levels.
- Grow the economy.

Each option represents an extreme of the possibilities; a combination of all three options will most likely be necessary in order to put the federal government on a sustainable path.

### The Tour

Beginning in September 2005, the Fiscal Wake-Up Tour has stopped in over 40 U.S. cities in an effort to raise awareness about the unsustainable fiscal policies of the U.S. The tour is a joint venture by The Concord Coalition, The Brookings Institution, The Heritage Foundation, and The Peter G. Peterson Foundation.

The tour includes the following speakers:

- [David Walker](#), President and CEO, [The Peter G. Peterson Foundation](#), and Former Comptroller General of the United States
- [Robert Bixby](#), Executive Director, [The Concord Coalition](#)
- [Harry Zeeve](#), National Field Director, [The Concord Coalition](#)
- [Isabel V. Sawhill](#), Senior Fellow and Director of Fiscal Policy Studies, [The Brookings Institution](#)
- [Alice Rivlin](#), Senior Fellow and Director, Greater Washington Research Program, [The Brookings Institution](#)
- [Jason Furman](#), Senior Fellow and Director, Hamilton Project, [The Brookings Institution](#)
- [Douglas W. Elmendorf](#), Senior Fellow, Economic Studies, [The Brookings Institution](#)
- [Paul R. Cullinan](#), Research Director, Budgeting for National Priorities, [The Brookings Institution](#)
- [Stuart Butler](#), Vice President for Domestic and Economic Policy Studies, [The Heritage Foundation](#)
- [Alison Fraser](#), Director, Thomas A. Roe Institute for Economic Policy Studies, [The Heritage Foundation](#)
- [Brian Riedl](#), Lead Budget Analyst, [The Heritage Foundation](#)
- [Maya MacGuineas](#), President, [Committee for a Responsible Federal Budget](#)
- [Joe Minarik](#), Senior Vice President and Director of Research, [Committee for Economic Development](#)

The tour stopped in the following cities:

Jacksonville, FL	5/19/2008	Cincinnati, OH	3/9/2007
St. Louis, MO	4/28/2008	Charleston, SC	3/6/2007
Pittsburgh, PA	3/25/2008	Palm Beach, FL	2/21/2007
Fresno, CA	3/6/2008	Vero Beach, FL	2/21/2007
Berkeley, VA	3/5/2008	Manchester, NH	2/13/2007
Madison, WI	2/27/2008	Des Moines, IA	2/1/2007
Phoenix, AZ	2/4/2008	Columbus, OH	1/10/2007
Tallahassee, FL	1/14/2008	Seattle, WA	11/29/2006
East Lansing, MI	12/6/2007	Denver, CO	11/28/2006
Iowa City, IA	12/3/2007	Chicago, IL	11/8/2006
Baltimore, MD	10/29/2007	Austin, TX	9/28/2006
Hartford, CT	10/23/2007	San Diego, VA	6/2/2006
Atlanta, GA	10/1/2007	Wilmington, DE	5/1/2006
Manchester, NH	9/28/2007	Philadelphia, PA	5/1/2006
San Francisco, CA	9/13 – 9/14/2007	Kansas City, MO	4/24/2006
Las Vegas, NV	9/12/2007	Omaha, NE	4/4/2006
Los Angeles, CA	9/11/2007	Durham, NC	2/27/2006
Irvine, CA	9/11/2007	Atlanta, GA	2/7/2006
Des Moines, IA	7/26/2007	Portland, OR	12/1/2005
Nashville, TN	7/16/2007	Minneapolis, MN	10/17/2005
Tampa, FL	5/30/2007	Richmond, VA	9/26/2005
Syracuse, NY	4/4/2007		

## Supplemental Appendix D: GAO Study of State and Local Government Fiscal Challenges

In July 2007, the Government Accountability Office (GAO) issued a summary report (GAO-07-1080SP) titled “State and Local Governments: Persistent Fiscal Challenges Will Likely Emerge within the Next Decade.” This report was intended to summarize a GAO study of the state and local government sector that was being conducted. The report contained simulations illustrating state and local receipts net of expenditures, health and non-health expenditures of state and local governments, and federal and state/local surpluses and deficits as a percentage of GDP. These simulations supported the following points:

- ❑ In the absence of policy changes, large and growing fiscal challenges for the sector will begin to emerge within the next few years.
- ❑ Fiscal difficulties for state and local sector are driven by rapidly rising health care costs.
- ❑ State and local fiscal challenges add to the Nation’s fiscal difficulties.

This summary report can be found at: <http://www.gao.gov/new.items/d071080sp.pdf>.

Following the summary report, the GAO then issued in January 2008 the full report (GAO-08-317) titled “State and Local Governments: Growing Fiscal Challenges Will Emerge during the Next 10 Years.” This report can be found at: <http://www.kslegislature.org/postaudit/GAO.pdf>.

The major findings from the above mentioned GAO study efforts were presented on July 18, 2007, by David M. Walker, Comptroller General of the United States. The presentation in its entirety (GAO-07-1113CG) can be found at: <http://www.gao.gov/cghome/d071113cg.pdf>

Walker’s speech was titled “Our Nation’s Long-Term Fiscal Challenge.” The purpose of the presentation was to give attendees a glimpse of our nation’s current financial position, as well as its long-term challenges and threats. The first topic of discussion was the composition of federal spending. In 1966, 43 percent of federal dollars was spent on Defense, 15 percent on Social Security, 7 percent on Net Interest, and 34 percent on other matters. At that time, Medicare and Medicaid were not a part of federal spending. However, in 1986, drastic changes in federal spending were seen. The amount spent on Defense decreased to 28 percent, Social Security increased to 20 percent, Net Interest increased to 14 percent, and Medicare and Medicaid made up 10 percent of federal spending. Since 1986, the amount of money spent on Defense continued to decrease, while the amount of money spent on Social Security, Medicare, and Medicaid continued to increase. If this trend continues, the federal government will eventually have only enough money to cover Net Interest and Social Security, leaving Medicare and Medicaid and all other spending out.

The next topic in Mr. Walker’s presentation was an overview of state and local governments in the United States federal system. Key points included the following:

- ❑ There are 87,575 state and local governments.
- ❑ States and localities received over \$400 billion in federal grant funds in 2006.
- ❑ State and local governments collected \$1.2 trillion in tax receipts in 2006.
- ❑ Other sources of funds: asset income, transfers from business and persons, and issuance of bonds.
- ❑ State and local governments made nearly \$2 trillion in operating and capital expenditures in 2006.
- ❑ State and local governments provide a variety of services, including but not limited to:
  - Primary and secondary education

- Higher education
- Police and fire services
- Hospitals
- Medicaid
- Public transit
- Highways
- Corrections
- Public housing
- Income security

Following the overview of state and local governments in the United States Federal system, Walker presented a variety of simulations which were based on current and historical spending and revenue patterns, and which assumed that current policies of state and local governments remain unchanged. The state and local simulations projected receipts and expenditures until 2050. The simulations were for the dates 1980 through 2050. The simulations made the following points:

- State and local governments face increasing fiscal challenges — illustrated by an operating surplus/deficit measure vs. net-lending/net-borrowing.
- State and local fiscal challenges add to the federal government's fiscal challenge — illustrated by the federal surplus/deficit vs. combined surplus/deficit.
- State and local fiscal difficulties are largely driven by rising health costs — illustrated by state and local government non-health care expenditures vs. state and local government health care expenditures.
- Federal non-Medicaid grants are projected to decline as a percentage of GDP — illustrated by a projection for non-Medicaid grants from 2000 – 2050.
- State and local tax receipts would have to rise well above projections under current law to maintain balance — illustrated by the base case (current law) vs. historical growth relative to GDP for the years 1980 – 2050, including a line showing what would be needed to maintain balance.
- State and local expenditures would have to be cut substantially relative to base case to maintain balance — illustrated by base case vs. maintaining balance for the years 2000 –2050.

To keep the debt to GDP ratio from rising above the current level, state and local tax levels would have to rise immediately and permanently by 16.8 percent, or state and local spending financed by own revenues would have to decrease immediately and permanently by 14.1 percent. The state and local fiscal gap in 2007 was \$11.5 trillion, 1.6 percent of the present value of GDP. Additionally, the federal fiscal gap in 2007 was \$54.5 trillion, 7.4 percent of the present value of GDP. Therefore, the combined fiscal gap for all of the nation's governments in 2007 was \$66 trillion, or 9 percent of the present value of GDP.

Finally, Walker mentioned that there are no easy solutions to this continuing problem. His main points in this area included the following:

- Expected rise in health care costs is a problem faced by all levels of government.
- State and local tax receipts would need to grow substantially faster than tax receipts have historically grown (and much faster than the base case simulations) to solve the potential fiscal problems.
- It does not appear that the sector can look to the federal government for increased assistance, and the federal government can not look to the state or local sector for assistance.
- It would take very substantive cuts in sector expenditures on basic services to avert the potential fiscal problems.
- All levels of government will need to engage in serious and substantive transformation efforts to address their respective fiscal challenges.

# Supplemental Appendix E: GASB April 2007, “Intergovernmental Financial Dependency Risk (Project) Prospectus”



Issue 6, Paper 2  
April 2007 Meeting

To: Board Members, David Bean

From: Roberta Reese

c: GASB staff, meeting observers

Date: March 19, 2007

Re: Project Prospectus

## INTERGOVERNMENTAL FINANCIAL DEPENDENCY RISK PROSPECTUS

### I. Objective of Proposed Project

This project’s objective is to establish standards for reporting and/or disclosing information related to risks associated with intergovernmental financial dependence. These risks may arise as a result of financial reliance between any level of government, such as federal support to state governments, state support to local governments, and federal support to local governments.

### II. Scope of the Project

This project will focus principally on two types of information. First is information about the extent of an entity’s reliance on financial support from other levels of government. One of the questions in this area is the level of detail or consolidation of that information. Another issue to be resolved is the method of communicating that information, whether that be display in the financial statements, disclosure in the notes, inclusion as required supplementary information, or possibly even as supplementary information, such as was the subject of Statement No. 44, *Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1)*.

The second type of information is a characterization of the risk associated with that reliance on financial support from other levels of government. Potential ways of characterizing the risk include identification of the type or name of the government providing support, nature of the support (for example, funded by continuing appropriation, discretionary grants, or one-time only grants), the programs funded by the support, and/or possibly describing the economic condition of the government providing support.

The project will not consider future projections, but will only focus on information reported for the period, and potentially changes from the prior period and trends in information reported in prior periods. The scope of the project will not include assets and liabilities, such as investments, receivables, and payables, associated with other governments. Reporting and disclosures for these items have been addressed in standards such as Statement No. 31, *Accounting and Financial Reporting*

*for Certain Investments and for External Investment Pools, Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No.3).*

### **III. Reasons for Proposed Project**

#### **A. Why the Board is considering this as an agenda topic**

This project came to the attention of the Board through awareness on the part of a Board member of how an issue raised by two Government Accounting Standards Advisory Committee (GASAC) constituents affects state and local governments. The issue is the federal government's current deficit and the challenges posed by long-term demographic and economic trends. This issue is being highlighted by U.S. Comptroller General, who is also a member of the GASAC, through a public awareness program of the Government Accountability Office as well as by the National Association of State Comptrollers, Auditors, and Treasurers through a resolution issued in August 2005.

The three levels of government in the United States transfer significant amounts of revenues. Although often viewed as separate elements of society by the citizenry, these governments are intertwined through series of overlapping programs and activities that are material, often vital to the provision of services, and almost always complex. Even when the direct operating activities of one level of government seem to be isolated from another level of government, they often occur within the communities of another government and therefore impact the economic welfare and resources of that community.

The reason for the project is to be proactive in issuing standards that will assist financial statement users to understand the extent and risks of intergovernmental financial dependencies for an entity. The current standards of the GASB do not directly address the issues raised by this project. A review of the financial statements of 50 state and local governmental entities shows that only limited information is currently being included in financial statements. For about 75% of the entities, it was possible to determine the total amount of intergovernmental revenues. Of the remaining 25%, some were large entities, such as large cities or university systems, that would be expected to have a significant amount of intergovernmental revenues, but some were smaller authorities that may not have received any intergovernmental revenues. Of the entities identifying intergovernmental revenue, about 33% identified the general source, such as federal, state, or local, of the intergovernmental revenue. About 10% of the entities made mention that they were exposed to intergovernmental risk in either the letter of transmittal or management's discussion and analysis. About 10% of the entities mentioned this risk in the notes to financial statements. Although some information about the extent and existence of financial support from intergovernmental sources is available, the information generally is at a summary level and provides no information to assess the characteristics of the support.

#### **B. Preliminary assessments**

##### **1. Assessment of pervasiveness of issue**

Intergovernmental financial dependency could be considered a major issue, both from the perspective that most governments receive financial support from another government and from the perspective that for most governments, this level of support is a significant proportion of their total annual revenues.

The pervasiveness of the issue at a macro level was assessed through review of existing statistics on intergovernmental resource flows based upon U.S. Census Bureau data. The *Compendium of Government Finances: 2002*, published in October 2005, provides detailed information about intergovernmental revenues. The following table of data was extracted from that report.

Type of Gov't	% Revenue from Federal Gov't	% Revenue from State Gov't	% Revenue from Local Gov't	Total % Intergovernmental Revenue
State	28.93%	X	1.63%	30.55%
Local	3.97%	32.83%	X	36.79%
County	2.90%	33.41%	X	36.32%
Municipality	4.51%	18.49%	X	23.00%
Township	1.18%	18.76%	X	19.93%
School District	1.03%	54.46%	X	55.49%
Special District	13.06%	6.94%	X	20.01%

The above-noted review of 50 governmental financial statements was used to assess pervasiveness of the issue at a micro level. As noted above, 75% of the entities identified some level of intergovernmental revenue. It is likely that some, if not many, of the remaining 25% of entities received intergovernmental revenue, but did not identify it in their financial statements. Of the 75% identifying such revenue, the percentage of total revenues coming from intergovernmental sources ranged from a low of 2% to a high of 68%, with an average of 27%.

## 2. Users' needs with respect to the proposed project

Information about users needs for information about intergovernmental financial dependency risk was obtained through a discussion forum conducted at the Association for Budgeting & Financial Management conference in October 2006 and through an email survey of a broad variety of users in February and March 2007. Responses to the email survey were solicited through an initial email, a follow up email, and a follow up phone call, as needed. The methods and number of responses received are summarized in the following table.

<u>Method of Input</u>	<u>Type of User</u>	<u>No. Solicited</u>	<u>No of Responses/ Participants</u>
Discussion Forum	Academic	N/A	8
Email Survey	Citizen	10	6
Email Survey	Financial markets	19	4
Email Survey	Legislative	7	2

Based on the responses to the survey and the discussion at the forum, it appears that all types of users make an assessment of intergovernmental revenues as part of their analysis of a government. Understanding the source and nature of intergovernmental revenues is an essential part of understanding the way a government functions. Most respondents indicate that sources other than annual financial statements are drawn on to complete their assessment. These other sources include state policy reports and state fact publications, official statements, institutional knowledge developed over time, budget documents and appropriations bills of both the entity receiving the aid and the entity granting the aid, reports of legislative and council proceedings, and even the media. The information available in the annual financial statements is not sufficient alone to complete their analysis because (1) it is only summary information, (2) it is not sufficiently timely, and (3) frequently does not link the revenue source with the programs funded at a sufficient level of detail.

Everyone who responded to the survey and everyone who participated in the discussion forum indicated that they consider intergovernmental financial dependence to be an important issue. We do not believe that the failure to respond to the survey should be interpreted that the individual does not consider this issue to be important. We expect that in any unsolicited mailing, a number of the individuals solicited will not respond for a variety of reasons. However, the sample size selected was not large enough and response rates to the surveys were not high enough to draw any definitive conclusions.

### 3. Input from GASAC

GASAC ranked this project highly in its 2006 assessment of priorities for GASB's Technical Plan. Twenty research projects were evaluated and ranked, with Intergovernmental Risk Reporting tying for 5<sup>th</sup>.

### C. Summary of Importance of Problem

This issue ranks as important in all aspects. The issue affects a large number of state and local governments, usually to a significant degree. The issue is important to all types of users, and users currently evaluate how the issue affects the particular government they are analyzing, primarily using information located from sources other than annual financial statements. And feedback from GASAC places this issue high in importance.

### IV. Relevant Literature

The issue of intergovernmental financial dependency risk has not been directly addressed by the GASB or other standards setters. Consequently, accounting literature was reviewed for features consistent with intergovernmental financial dependency risk, such as risks related to revenue sources, etc.

### GASB's Conceptual Framework

The GASB conceptually believes that information about certain risks should be disclosed (in a) government's financial reports. Paragraph 79 of Concepts Statement No.1, *Objectives of Financial Reporting*, states, in part:

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.
  - a. Financial reporting should provide information about the financial position and condition of a governmental entity....
  - b. Financial reporting should provide information about a governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources ....
  - c. Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources.

Generally, the risks that governments conceptually should disclose are risks of potential loss of resources that could affect users assessment of the level of services that can be provided by the governmental entity and its ability to meets its obligations as they become due. When discussing intergovernmental risks in this paper, the emphasis has generally been on the risk that a government could potentially lose future financial resources that would not allow it to continue to provide the same level of services or potentially meets its financial obligations.

The importance of disclosing information about risks was reemphasized in Concepts Statement No.3, *Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements*. Paragraph 37 of Concepts Statement 3 states, in part:

37. Unlike financial statements, notes may include management's objective explanation of recognized amounts and related known facts, contingencies, certain risks that affect financial statements, subsequent events, measurement methods, accounting policies, and other information essential to understanding the financial statements and to assess compliance with finance-related legal or contractual requirements. However, notes do not include either (a) subjective assessments of the effects of reported information on the reporting unit's future financial position or (b) predictions about the effects of future events on future financial position.

In particular, paragraph 37 stresses the importance that the risks that may be disclosed are those that affect financial statements. Within the context of the discussion of note disclosures in Concepts Statement 3, risks that are disclosed would be those essential to a user's understanding of a government's financial position or inflows and outflows of resources.



## **GASB Standards**

GASB standards related to risk have focused on risks related assets and liabilities and include the following:  
GASB Statement No.3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*;  
GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Issues*;  
GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transaction*;  
GASB Statement No. 30, *Risk Financing Omnibus*; and  
GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*.

## **Other Standards Setters**

The Federal Accounting Standards Advisory Board does not directly refer to intergovernmental financial dependency risk in its standards or concepts statements; however there is reference in Statement of Federal Financial Accounting Concepts No.3, Management's Discussion & Analysis, and Statement of Federal Financial Accounting Standards No. 15, Management's Discussion & Analysis, to future effects of known risks as demonstrated by the following excerpt from SFFAS 15:

3. MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions, and trends. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends. Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.

The Securities and Exchange Commission requires that an analysis of risk factors be included in certain filings under the Securities Acts of 1933 and 1934. Regulation S-K., Item 503 lists specifically as potential risk factors a lack of an operating history, a lack of profitable operations in recent periods, the business or proposed business, or a lack of a market for the securities. Although it is not specifically stated in these regulations, some companies list as a risk factor concentrations related to revenues, either concentrations of revenue coming from a limited number of products or from a limited number of customers.

Under SEC requirements relating to MD&A, publicly held business enterprises are required to describe, among other things, "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations" (Regulation S-K., Item 303(a)(3)(ii)).

The Financial Accounting Standards Board requires that information related to reliance on major customers be provided. FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, requires certain disclosures about the amounts and revenue and segments reporting the revenue when a single customer constitutes 10 percent or more of an enterprise's revenues. The 10 percent threshold is acknowledged as being arbitrary; however, it was carried forward from a widely accepted disclosure from FASB Statement No. 14, *Financial Reporting for Segments of a Business Enterprise*. AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, extends to all business and non-for-profit organizations the requirements in FASB Statement 14 to disclose the major types of products and services of the entity, as well as its principal markets. The provisions of Statement 14 applied only the public business enterprises. SOP 94-6 also requires disclosures of vulnerabilities due to certain concentrations of risks, such as:

- Concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor.
- Concentrations in revenue from particular products, services, or fund-raising events.
- Concentrations in the available sources of supply of materials, labor, or services, or of licenses or other rights used in the entity's operations.
- Concentrations in the market or geographic area in which an entity conducts its Operations.

The SOP sets a fairly high threshold for when the disclosures are required. The disclosures are required only when management has information that the concentration exists, the enterprise is vulnerable to risk a near term severe impact due to the concentration, and that it is reasonably possible the events that could cause the severe impact will occur in the near term.

## **V. Major issues**

### **A. List and discuss major issues**

1. Should amounts reported on the face of a government's financial statements be disaggregated to make intergovernmental financial interdependency more clear? (For example, should revenues be disaggregated to show amounts that a local government receives from federal or state governments?) Some of the factors to be evaluated would be feasibility of disaggregation, especially in the statement of activities, the particular classes of disaggregation, whether that be by level of government, by nature of the assistance program, or by program or function supported, and overall balance in the level of detail in a financial statement.
2. What categories of intergovernmental support would be most useful to assist users in assessing intergovernmental dependency risk? One aspect of understanding the risk is understanding what entities are providing the support so that a financial assessment of those entities can be made. Additionally, information about the specific assistance programs or categories of assistance programs may be needed. For example, assistance that is provided through continuing appropriations is likely perceived to be less risky than assistance that is continued only with specific action of a legislative body. Assistance that is funded through dedicated revenue sources is less risky than assistance funded through general revenues. It may be easier to reach agreement on appropriate categories of assistance providers than on categories that describe the nature of the assistance program.
3. What kinds of disclosures associated with intergovernmental financial dependency and related risks should be made? The guidance in Concepts Statement No.3 should be applied in determining what methods of communication are appropriate. But first a decision about what types of the information used to assess intergovernmental financial dependency risk should be included in general purpose external financial statements will need to be made. It is possible that some of the information is too detailed for general purpose external financial reporting, and it is possible that some of the information is already available in some other form.

### **B. Alternative courses of action**

The primary course of action is a limited-scope project that leads to the issuance of an Exposure Draft, and after evaluation of comments received, to the issuance of a Statement of accounting standards. As this topic is not addressed in other GASB pronouncements, issuance of a Technical Bulletin or Interpretation is not an option.

This Statement would not be expected to change the amounts of revenues, expenses, expenditures, asset, liabilities, or net assets reported in financial statements. Rather it is possible that certain classifications of intergovernmental revenues would be required to be classified separately or disclosed. Additional qualitative disclosures to provide more detail about the risks associated with intergovernmental financial dependence also may also be required. If it is determined that additional information about intergovernmental financial dependence is either essential or useful for purposes of operational, economic, or historical context, the Statement may also prescribe required supplementary information or supplementary information.

We are not aware of any potential effects on special-purpose and small governments. One potential alternative to issuance of a stand-alone Statement on intergovernmental financial dependence would be to combine this project with the Economic Condition project. Some might view an understanding of the financial support from other governments as one aspect of economic condition. When staff discussed this issue with users of financial statements, the discussion often broadened to a discussion of information helpful in assessing economic condition. For example, if someone is considering what would happen to an entity should a certain source of intergovernmental revenue is not continued, a logical course of analysis is to examine other sources or potential sources of revenue to ascertain whether other sources can be drawn on and to examine

the nature of the programs provided by the government to see whether there is flexibility in the level of service provided. A benefit to this alternative is that it would provide a more complete set of information for user analysis. A drawback, of course, is that this would delay the timing of issuance of guidance significantly.

A second alternative to adding this project to the current technical agenda now is to conduct the research described below (developing categories to classify intergovernmental revenues and researching feasibility and cost/benefit of possible disclosures) first. When this research has been completed, the Board would reassess the approach to the project and whether it would be added to the current technical agenda. The benefit of conducting this additional research would be to know whether useful, consistent classifications for intergovernmental revenues can be readily developed and whether such presentations are feasible to implement. If this research does not produce a single method of desirable classifications, the project plan could conceivably be changed to include issuance of an Invitation to Comment or Preliminary Views document prior to deliberations leading to an Exposure Draft and eventual Statement.

## **VI. Initial Project Plan, Timetable, and Budget**

### **A. Research plan for addressing issues**

Two types of research will be conducted to support Board deliberations. First, a Task Force will be used to develop alternative methods of classifying intergovernmental revenues. Preliminary alternatives would be developed by staff using the user surveys conducted as part of developing this prospectus. Then, a Task Force meeting would be held to evaluate the benefits and drawbacks of these alternatives, to refine the alternatives, and to possibly develop additional alternatives.

Second, once the alternatives are reduced to a limited number of options, a survey of practitioners will be conducted to assess feasibility of implementing the options and costs associated with the options. We anticipate this would be conducted from a survey accessed from the GASB web site and publicized through our constituent organizations represented on GASAC.

## **VII. Staff Recommendation for Placement on Agenda**

Based on the pervasiveness of the issue and its importance to users of financial statements, we recommend keeping the scope of the project limited to risks related to dependency on support from other levels of governments and recommend adding it to the Board's current technical agenda for initial Board deliberations in December 2007.

### **B. Timetable for completing project**

The following is the projected timetable for the primary alternative presented in V.B. (a limited scope project that leads to the issuance of a Statement).

Ju1. 2007	Develop preliminary options for categories of disclosure, establish Task Force
Aug. 2007	Task Force meeting to explore alternatives for categories of disclosure
Oct. 2007	Web-based survey of practitioners to explore the feasibility and implementation cost of the major alternatives developed through the Task Force meeting
Jan. 2007	Board deliberations on disclosure categories
Mar. 2008	Board deliberations on methods of communication (display, notes, RS1, S1)
Apr. 2008	Review draft of a standards section
May 2008	Review preballot draft
Jun. 2008	Review ballot draft, issue ED
Nov. – Dec. 2008	Redeliberate issues
Jan. – Mar. 2009	Finalize and issue final Statement

### C. Budget-Staff time

Staffing for the primary alternative would consist of half of the time of a project manager (PM) in the lead role and one-tenth of the time of a project manager in a consultative role, for the duration of the project, plus one quarter of the time of a postgraduate technical assistant (PTA) during the research phase. Staff time, as presented in the following chart, is calculated as the duration of the activity in months multiplied by the percentage of each staff's time devoted to the project multiplied by the 150 hours available per staff per month on average.

<u>Activity</u>	<u>Time Period</u>	<u>Staffing</u>	<u>Calculation</u>	<u>Hours</u>
Research phase	Jul-Nov 2007	.5 FTE Lead PM	5 mos x .5 x 150	375
		.1 FTE PM	5 mos x .1 x 150	75
		.25 FTE PTA	5 mos x .25 x 150	188
Deliberations through Exposure Draft	Dec 2007- Jun 2008	.5 FTE Lead PM	7 mos x .5 x 150	525
		.1 FTE PM	7 mos x .1 x 150	105
Deliberations through final Statement	Oct 2008- Mar 2009	.5 FTE Lead PM	6 mos x .5 x 150	450
		.1 FTE PM	6 mos x .1 x 150	90
Total				1,808

# Supplemental Appendix F: Association for Budgeting and Financial Management Conference

## Summary of Responses to GASB by ABFM Members

**Session:** Intergovernmental Financial Risks Forum, October 20, 2006, Atlanta

**In attendance:** Several ABFM members, Roberta Reese – GASB Staff, and Edward Mazur – GASB member

**Basis for summary:** Transcription of notes taken by E. Mazur

**Note:** Four questions pertaining to intergovernmental financial risk were posed by GASB to members of the ABFM representing various states. Following are the summarized responses and suggestions by ABFM to GASB:

### List of Questions

1. How important is this issue?
2. What facets of this issue should GASB consider?
3. What type of information is needed to assess this risk?
4. Should this information be part of state and local government financial reports?

### Question 1: How important is this issue?

*(Comments from ABFM members by state)*

Representative from Illinois:

- Local governments dependent upon intergovernmental revenue are more subject to financial stress.
- Schools are at greater risk of cuts in intergovernmental revenues.
- Higher amounts of intergovernmental revenue may create higher risk of outside political pressures.

Representative from Michigan:

- Revenue sharing is dropping for local governments creating fiscal stress.
- Intergovernmental risk increases when expenditures are mandated.
- Local government charters set minimum services that may push them into bankruptcy if intergovernmental revenues are cut.
- Property tax caps limit revenue raising.
- Restricted real tax options.
- State has constitutional tax limits that increase risk from cuts in intergovernmental revenues.
- Local governments create risks for states when to local governments seek guarantees for the right to levy taxes, or guarantees relating to state funding for K through 12 education.

Representative from Wisconsin:

- State use of shared revenues is high.
- Risks to local governments would come if revenue sharing rates were cut.
- Exposure comes from changes in appropriation formulas.

Representative from Kentucky:

- Risk comes from a shared tax base, e.g. local and state governments levy separate taxes on the same base — such as income or sales.

- A factor in the credit rating of local governments depends on shared tax base.

Representative from Delaware:

- Exposure results when a state assumes local governments costs, such as criminal justice.
- School districts (19 districts) are supported through formula driven appropriations.
- School districts represent 60 percent of local expenditures.
- Timing of flows can create risk, e.g. state appropriates 70% percent in September, but may not be able to appropriate the remaining 30 percent in November.
- Local government referenda can impact current and future year required expenditures at the state level (e.g. local decisions to building schools) that then impacts future state fiscal plans.

Representative from Kansas:

- State restrictions on local tax amounts creates exposure.
- If denied state provided revenues, local government would need flexibility to set property taxes, which would then be impacted by the amount and growth of the tax base.

## **Question 2: What facets of this issue should GASB consider?**

*Including: Should information appear in financial statements or notes or RSI?*

Representative from Illinois:

- Specify grants versus recurring flows.
- Show changes in composition of intergovernmental revenues.
- Discuss the flexibility of the government to respond to reductions in intergovernmental revenues.
- Report payments in lieu of taxes.

Representative from Kentucky:

- Disclose entitlements that are formula driven, and disclose the composition of formula.
- Disclose changes in laws of providing governments that will create future fiscal impact.
- Report top five intergovernmental revenue sources and then all others, on both an absolute dollar basis and as a percent of total intergovernmental revenues.
- Identify the top 10 taxpayers that provide goods or services to other levels of government.
- Categorize nature of tax exempt property.

Representative from Kansas

- Cite statutes supporting intergovernmental flows.

Representative from Delaware:

- Report tax-exempt state universities and hospitals located in the jurisdiction of a local government.

Representative from Michigan:

- Report in MD&A and the Statistical Section information on intergovernmental revenues.
- Clarify legally versus constitutionally mandated expenditures.

Representative from American University:

- Disclose amount of tax-exempt property in a government's jurisdiction.
- Disclose payments in lieu of taxes by amount and nature.

Other attendee:

- List total expenditures associated with five major mandated programs, such as:
  - o environment
  - o education
  - o health

- Separately report discretionary and non-discretionary intergovernmental revenues.

**Question 3: What type of information is needed to assess this risk?**

**Question 4: Should this information be part of state and local government financial reports?**

**Note:** Time did not allow for the participants to provide comments on Questions 3 and 4

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## Supplemental Appendix H: Relevant Quotations

“Unless action is taken to bring program cost in line with available resources, the coming surge of entitlement spending will end in a fiscal train wreck that will have an adverse effect on the U.S. economy and on virtually every American.”

– **Department of Treasury, “The Federal Government’s Financial Health,” 2007**

“Many of the federal government’s current policies, programs, functions, and activities are based on conditions that existed decades ago, are not results-based, and are not well aligned with 21<sup>st</sup> century realities.”

– **Government Accountability Office, “Fiscal Stewardship: A Critical Challenge Facing Our Nation,” January 2007**

“Given the fiscal challenges, a reexamination of government can be expected, whether initiated through a public decision making process or forced on us by a crisis.”

– **Government Accountability Office, “21<sup>st</sup> Century Challenges — Reexamining the Base of the Federal Government,” February 2005**

“A vicious cycle may develop in which large deficits lead to rapid growth in debt and interest payments, which in turn adds to subsequent deficits.”

– **Federal Reserve Chairman Ben Bernanke, testimony before the budget Committee, U.S. Senate January 18, 2007**

“A thorough review of our commitments — and at least some adjustment in those commitments — is urgently needed.”

– **Former Federal Reserve Chairman Alan Greenspan, testimony before the Budget Committee, U.S. Senate April 21, 2005**

“Our time to act as generational stewards is now.”

– **Robert Bixby, A Fiscal Wake-Up Call**

“The choice facing policymakers is not whether to address rising deficits and debts but when and how to address them.”

– **Congressional Budget Office, “The Long-Term Budget Outlook December,” 2007**

“State and local budgets face significant uncertainty and serious risk because of linkages to federal policies.”

“Local governments are at the end of a chain of intergovernmental financial relationships, but first in line in terms of impact on the lives of their citizens.”

– **National Academy of Public Administration, “Ensuring the Future prosperity of America: Addressing the Fiscal Future,” November 2005**

“The effects of these fiscal conditions are exacerbated because they occur ... in combination with a very low personal savings rates, high levels of personal debt and enormous current account deficits.”

– **Former Secretary of Treasury Robert Rubin, “We Must Change Policy Direction,” January 24, 2006**

“The federal government should provide more clarity about where we are and where we are headed from a fiscal perspective.”

– **Former Comptroller General David M. Walker, “Spending is Out of Control,” November 14, 2005**

“Reliance on foreign borrowing increases the budget’s exposure to international capital markets and decisions made by foreign interests.”

– **Warren Rudman, J. Kerrey, Peter Peterson and Robert Bixby, “America’s Economy: Headed for Crisis,” August 9, 2007**

“A crucial first step is to insist on truth and transparency in government operations, including federal financial reporting.”  
– **Former Comptroller General David M. Walker, “Saving Our Nation’s Future: An Intergovernmental Challenge,” February 2, 2005**