



March 6, 2012

Director of Research and Technical Activities
Project No. 13-3
Governmental Accounting Standards Board
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To Whom It May Concern:

We as board members of the Department of Business Officials (DBO), for the Colorado Association of School Executives (CASE), are writing to express our concerns about the Preliminary Views of the Economic Condition Reporting: Financial Projections. We will address the eight questions outlined in the Notice to Recipients section of the document.

- 1) The Board's preliminary view is that there are five components of information that are necessary to assist users in assessing a governmental entity's fiscal sustainability. These include:
 - a. Projections of the total cash inflows and outflows and major individual cash inflows and outflows, in dollars and as a percentage of total cash inflows and outflows, with explanations of known causes of fluctuations in cash inflows and outflows.
 - b. Projections of the total financial obligations and major individual financial obligations, including bonds, pension, other postemployment benefits, and long term contracts, with explanations of the know causes of fluctuations in financial obligations.
 - c. Projections of annual debt service payments (principal and interest).
 - d. Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies.

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

We feel there are several elements that are deficient in this model. Because governmental accounting is fund balance based, the statement of cash flows is misleading unless it provides an area for beginning cash balance. The models shown did not provide a basis for this, only inflows and outflows for the current year. We feel that even if this information is provided in the disclosing footnotes, it is likely to appear negatively to end users. We also feel this change will confuse the users. We currently use the modified-accrual basis of accounting with a conversion of certain financial statements to the accrual basis per GASB 34. Now, we would be adding an element of the cash basis of accounting with these statements.

- 2) The Board's preliminary view is that financial projections should be (a) based on current policy, (b) informed by historical information, and (c) adjusted for known events and conditions that affect the projection periods. Current policy includes policy changes that have been formally adopted by the end of the reporting period but that will not be effective until future periods. Do you agree with this view? Why or why not?

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We feel the GASB should consider the affect this would have on smaller governments. Because many governments use "predictions" when creating financial forecasts, these rules would force all governments including extremely small entities to develop official adopted policies around projected unknown factors. When considering the current economic environment in regards to property valuations and state economic crisis', a very large percentage of our revenue will be based on unknown factors. Having to draft official policies and adopt them could put undue strain on already cash strapped smaller governments. In addition we feel this reporting would likely be different than the budgetary projections that are made aside from these guidelines. A user reading our budget documents may get a very different picture than the information they are extracting from this section of the CAFR.

- 1) The Board's preliminary view is that inflows and outflows should be projected on an accrual basis of accounting. Do you agree with this view?

As stated above in a previous question, we feel this information could be very confusing to an end user. We should strive for continuity in our financial reporting.

- 2) The Board's preliminary view is that the identification and development of assumptions for making financial projections should be guided by a principles-based approach. Such an approach would set forth principles that require assumptions to be based on relevant historical information, as well as events and conditions that have occurred and affect the projections periods. Furthermore, these assumptions should be (a) consistent with each other (where appropriate) and (b) comprehensive by considering significant trends, events, and conditions. Do you agree with this view? Why or why not?

We feel that the credibility in our financials could be harmed with a principles based approach vs. a rules based approach. This approach leaves assumptions open to professional opinions which could cause a lack of continuity when comparing to other governmental entities.

- 3) The Board's preliminary view is that annual financial projections should be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting. Do you agree with this view? Why or why not?

Based on the policies surrounding these preliminary views, we feel five years is too long. Assumptions are likely to change each year and this will also affect the governments' credibility. We feel the five year projections currently recommended for budget documents are sufficient and again feel that the guidelines would cause a significant difference in these two documents further confusing users.

- 4) The Board's preliminary view is that all of the components of fiscal sustainability information are essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context and therefore should be required and communicated as required supplementary information. Do you agree with this view? Why or why not?

As stated previously, we do not believe that this information should be required with the financial statements. Most governments have five year revenue, expenditure, and fund balance projections as part of their budget document. They base these on the organizations assumptions and predictions and are not required to have official policies or known factors.

- 5) The Board's preliminary view is that all governmental entities should be required to report financial projections and related narrative discussions. Do you agree with this view? Why or why not?

Again, we believe these projections belong in a budget document with more autonomy given to the governmental entity that is preparing them.

- 6) Do you believe that a phase-in period for implementing the reporting requirements for financial projections and related narrative discussions would be appropriate (for example, requiring governmental entities over certain dollar thresholds to implement first)? If so, what phase-in criteria would you recommend?

Yes. We agree that if the GASB chooses to implement this preliminary view, larger governments should be implemented first. We also feel the GASB should consider exempting extremely small government to which these additional provisions could be very financially punitive.

We appreciate the opportunity to address the issues presented in the Preliminary Views on Economic Condition Reporting: Financial Projections document. As a Board, we are very in tune with the current climate in governmental financial reporting. In education, we have had our budgets slashed to the core and have the continuing challenge of trying to provide excellent public education to our children in spite of these reductions. Further subjecting us to reporting requirements that would only confuse the users will not help this situation. We are recommending that GASB consider a similar view for the budget document and allow governments to forecast cash flows on a basis that is less stringent and reliant on known factors or formally adopted board policy. We also recommend GASB consider exempting smaller governments below a certain dollar threshold.

Sincerely,



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Department of Business Officials
Colorado Association of School Executives



Shae Martinez
Secretary/Treasurer
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