Letter of Comment No. 77 File Reference: 13-3PV Date Received: 3/15/12



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

Director:

On behalf of the Governmental Issues Forum of the Colorado Society of Certified Public Accountants (CSCPA), we would like to take this opportunity to respond to your Preliminary Views of the Governmental Accounting Standards Board on major issues related to Economic Condition Reporting: Financial Projections.

We realize that as a result of the severe economic recession that began in 2008, the fiscal sustainability of many state and local governments has come into question because of a significant drop off in tax revenues and payments from other governmental entities without a corresponding decrease in the cost of services that these state and local governments are providing. The inability of a governmental entity to generate resources and meet its financial and service obligations is naturally of concern to some users of General Purpose External Financial Reports, especially those users to whom the financial and service obligations are due. While we agree that the information concerning fiscal sustainability this project is attempting to provide will be of benefit to users, we believe it would be more beneficial to report the various components within the Management's Discussion and Analysis, notes to the basic financial statements, or the Economic Condition Reporting: The Statistical Section rather than being set apart as RSI.

Please see our detailed comments below:

- 1. Cash inflows (Component 1) and cash outflows (Component 2) would be expected elements of a projection. We feel that Component 3 and Component 4 (financial obligations and annual debt service payments on an accrual basis) would be reflected in the cash outflows and inflows and are already contained within the basic financial statement and notes. Component 5 (narrative discussion of intergovernmental service dependencies) could be placed in a note regarding commitments and contingencies.
- 2. Basing projections on current policy, as adjusted for historical information and known events and conditions is sound theory but does not appear to be practical in implementation. Historical trends may bear little relation to future periods and there is a risk of management judgment and bias. It may be difficult for auditors to provide a level of assurance appropriate to RSI. We feel most of this information is currently available in CAFR reports.
- 3. We feel it would be not only difficult for the user to understand but also difficult for the preparer to convert information that is currently presented on an accrual or modified accrual basis into a projection on a cash basis. Projections of financial obligations and debt service requirements are already presented on an accrual basis within the notes to financial statements.

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- 4. As noted in 2 above, basing the financial projections on a principles-based approach is sound in theory, but may introduce management's judgment and bias.
- 5. We feel that five years is too long a period to try to project actions and events and would not provide any useful information to users.
- 6. We feel that most of the information the Preliminary Views is trying to provide already resides within the MD&A, notes to the financial statements, and the Statistical Section. Financial projections needed by special users can be provided by budget documents, forecasts, and other strategic plans.
- 7. We feel this type of reporting would be a hardship on smaller, less-sophisticated governments. We also question the usefulness of this information when prepared by governments that, for example, might currently have only one major source of revenue which is collected for the sole purpose of retiring debt. While larger governments may already have the resources to provide this type of information, who will provide this information if a government has limited resources.
- 8. If the "Economic Condition Reporting: Financial Projections" is implemented, there should be a phase-in period similar to the phase in for GASB34 implementation.

In summary, we feel the proposed financial projections would not be a practical or cost-effective way of providing users of financial statements with a method of assessing fiscal sustainability. Government resources are not infinite, and this may require management to reduce the amount of time preparing and reviewing financial statements. There is already pressure on governments to maintain future debt covenant ratios, eliminate budget overruns or over commitments, maximize transparency disclosures for pensions and OPEB, and minimize disclosures about going concern risks. We feel this financial projection requirement will cause increased pressure for governments to maintain acceptable levels of the same type of information based upon future projected information that may or may not be credible.

Respectfully submitted,

Governmental Issues Forum Committee Colorado Society of Certified Public Accountants