

**Colorado Higher Education Governing Boards  
HIGHER EDUCATION FISCAL COORDINATOR**

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

Dear Mr. Bean:

This letter is the Colorado Higher Education Financial Advisory Committee's (FAC) response to the Preliminary Views (PV) document, *Economic Condition Reporting: Financial Projections*. The FAC is comprised of the Controller for each public higher education institution's governing board in Colorado. We thank you for the opportunity to respond to this important issue.

It is the FAC's position that these financial projections are not essential elements that should be included in external financial statements and, further, financial projections do not meet the definition of RSI.

**Questions for Respondents**

1. The Board's preliminary view is that there are five components of information that are necessary to assist users in assessing a governmental entity's fiscal sustainability (Chapter 3, paragraph 2):
  - Component 1 – Projections of the total cash inflows and major individual cash inflows, in dollars and as a percentage of total cash inflows, with explanations of the known causes of fluctuations in cash inflows (Chapter 3, paragraphs 4-9)
  - Component 2 – Projections of the total cash outflows and major individual cash outflows, as dollars and as a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows (Chapter 3, paragraphs 10-14)
  - Component 3 – Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits, and long-term contracts, with explanations of the known causes of fluctuations in financial obligation (Chapter 3, paragraph 15-20)
  - Component 4 – Projections of annual debt service payments (principal and interest) (Chapter 3, paragraph 21-23)

- Component 5 – Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies (Chapter 3, paragraph 24-26)

Do you agree with this view?

***Response***

*We disagree with the entire concept of including financial projections in external financial statements. We particularly disagree with Components 1 and Component 2 because reliance on state and federal support, including student financial aid, is subject to both state legislative actions and limitations, and federal congressional actions which are not predictable in the current economic environment. Because the levels of state and federal funding cannot be relied on over time, setting tuition rates is equally unpredictable. Projections required by Component 2 are significantly influenced by the unreliable projections of Component 1. If we are unable to make reliable projections on cash inflows, projections of cash outflows will be equally unreliable.*

*In addition, the requirements of Component 4 are adequately reported by existing reporting requirements, including disclosing debt that has been authorized but not issued.*

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 changes that have been formally adopted by the end of the reporting period but that will not be effective until future periods (Chapter 4, paragraphs 2-7).

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

***Response***

*We do not agree that projections should be included in external financial statements.*

3. The Board's preliminary view is that inflows and outflows should be projected on a cash basis of accounting, and financial obligations should be projected on an accrual basis of accounting (Chapter 4, paragraphs 8-12).

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

***Response***

*We do not agree with the concept of including projections in external financial statements and information presented under either the cash or accrual basis will not provide reliable information.*

4. The Board's preliminary view is that the identification and development of assumptions for making financial projections should be guided by a principles-based approach. Such an approach would set forth principles that require assumptions to be based on relevant

historical information, as well as events and conditions that have occurred and affect the projection periods. Furthermore, these assumptions should be (a) consistent with each other (where appropriate) and with the information used as the basis for the assumptions and (b) comprehensive by considering significant trends, events, and conditions (Chapter 4, paragraphs 13-16).

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

***Response***

*We disagree. As stated throughout, we do not believe that projections should be included in external financial statements. However, the approach should be based on principles if the Board elects to implement this requirement.*

5. The Board's preliminary view is that annual financial projections should be made for a minimum of five individual years beyond the reporting period for the purpose of external reporting (Chapter 4, paragraphs 19-23).

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

***Response***

*We do not agree with this view. Financial statements present historic information while projections are, by definition, based on assumptions and are less reliable over time. To project the same information for five years will report information that lacks relevance, reliability, comparability, consistency and understandability, which represent five of the six characteristics that Concepts Statement 1 states are necessary for information to be effectively communicated. This could have the additional effect of eroding user confidence in our financial reporting.*

6. The Board's preliminary view is that all of the components of fiscal sustainability information are essential for placing the basic financial statements and notes to the basic financial statements in an operational or economic context, and therefore should be required and communicated as required supplementary information (Chapter 5, paragraphs 7-12).

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

***Response***

*We strongly disagree with this view. As stated, projections do not meet the definition of RSI and should not be included in external financial statements. Because of the potential for inaccuracy, confusion, and inconsistency, there is risk that users who may not understand the inherent lack of reliability of projections may make certain assumptions that will not be correct, thus leading to an erosion of confidence to our readers of the financial statements. Because there is such emphasis on transparency and accountability, providing unreliable information would also expose governmental entities to unnecessary scrutiny, data requests to explain variances from reported projections, criticism, and needless risk of litigation.*

7. The Board's preliminary view is that all governmental entities should be required to report financial projections and related narrative discussions (Chapter 5, paragraphs 13 and 14).

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

***Response***

*We strongly disagree with this view. Based on our previous discussion, projections should not be included as required information.*

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

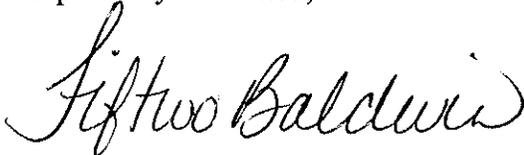
***Response***

*We do not agree that financial projections should be included. We would not recommend phase-in criteria.*

**Conclusion**

We understand and appreciate that financial sustainability of governmental entities is a fundamental issue that merits the attention of the GASB. However, we believe that the presentation of projections of economic conditions affecting the sustainability is best presented in other documents and does not belong in audited financial statements.

Respectfully submitted,



Fiftwo Baldwin, CPA  
Colorado Higher Education  
Financial Advisory Committee Chair

Mr. David Bean  
March 16, 2012  
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**Colorado Financial Advisory Committee (FAC) Member Institutions:**

Adams State College

Auraria Higher Education Center

Colorado Community College System

Arapahoe Community College

Community College of Aurora

Community College of Denver

Front Range Community College

Lamar Community College

Morgan Community College

Northeastern Junior College

Northwestern Community College

Otero Community College

Pikes Peak Community College

Pueblo Community College

Red Rocks Community College

Trinidad State Junior College

Colorado Mesa University

Colorado School of Mines

Colorado State University System

Colorado State University Fort Collins

Colorado State University Pueblo

Colorado State University Global

Fort Lewis College

Metropolitan State College of Denver

University of Colorado System

University of Colorado Boulder

University of Colorado Denver

University of Colorado Colorado Springs

Anschutz Medical Campus

University of Northern Colorado

Western State College