



March 16, 2012

David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, Connecticut 06856-5116

Re: Project No. 13-3

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Preliminary Views (PV) “Economic Condition Reporting: Financial Projections” released by the Governmental Accounting Standards Board (GASB). NACUBO’s comments on the PV were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 2,100 not-for-profit and public colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

NACUBO appreciates the use of a PV to gather additional feedback from constituents for the economic condition project. We also value the extensive time and effort that the Board and staff have devoted to this effort. Finally, we look forward to participating in the New York public roundtable on April 17, 2012.

### **Overall Observations of the PV**

Higher education institutions understand the value of forward-looking information. As business type activities, public institutions must carefully analyze and connect their strategic forward-looking plans with resource allocation discussions and decisions. Although this is a critically important function of management, we do not believe that such information belongs in the audited general purpose external financial statements. In addition, we do not believe that such information is necessary to provide historical or operational context to the financial statements and notes. Our comments do not address all of the questions in the PV because of our fundamental disagreement with certain

components of information that the Board preliminarily believes is necessary to assist users in assessing a government's fiscal sustainability.

**Question #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

- 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
- Component 2—Projections of the total cash outflows and major individual cash outflows, in dollars and as a percentage of total cash outflows, with explanations of the known causes of fluctuations in cash outflows
- Component 3—Projections of the total financial obligations and major individual financial obligations, including bonds, pensions, other postemployment benefits (OPEB), and long-term contracts, with explanations of the known causes of fluctuations in financial obligations
- Component 4—Projections of annual debt service payments (principal and interest)
- Component 5—Narrative discussion of the major intergovernmental service interdependencies that exist and the nature of those service interdependencies

NACUBO does not agree with the Board's views in question number 1. As discussed below, we have the greatest disagreement with components 1 and 2. We note that component 4 is already provided in the notes to the financial statements. Also, we believe that information regarding significant and known obligations (component 3) is already included in the financial statements, or that projects exist or are in the pipeline for other obligations (e.g. pensions and OPEB). Finally, component 5 is frequently covered in the MD&A section of public institutions.

Projections of total and major cash inflows and cash outflows (components 1 and 2):

We think that the critical foundational building blocks of Concepts Statement 1, "Objectives of Financial Reporting," were overlooked when defining these components of fiscal sustainability. Although the PV states that economic condition reporting is rooted in Concepts Statement No.1, we do not see strong conceptual support for the notion that a forward-looking view must be taken to fully assess economic condition. Nor do we believe that such a view must include projected cash inflows and cash outflows in the general purpose external financial statements (defined as core financial statements, notes, and required supplemental information in the Concepts Statement).

Paragraph 3 in chapter 1 of the PV uses opening sentences from paragraphs 35 and 79 of Concepts Statement 1 to support the view that forward-looking information is needed to fully assess economic condition. We think additional sentences that clarify the essence of what Concepts Statement 1 conveys are missing. Paragraph 35 states (with emphasis added):

Investors and creditors need information about available and likely future financial resources, actual and contingent liabilities, and the overall debt position of a government to evaluate the government's ability to continue to provide resources for long-term debt service. **They review operating results and cash flow data (both currently and over time) to look for trends that may indicate strengths and weaknesses in the ability of the government to repay debt. Trend analysis helps investors and creditors project future revenues and predict possible allocation of those revenues.**

Paragraph 35 acknowledges that investors and creditors can and should use operating results and cash flow data provided in the core financial statements to assess the economic strengths and weaknesses of a government. Investors and creditors projecting future revenues is an acceptable practice. Such analysis is typically enhanced by several years of financial results.

Further, paragraph 3 in chapter 1 notes that Concepts Statement 1 includes reference to a future orientation for financial reporting information when it states in paragraph 79, “Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.” The PV interprets this as, “financial reports should provide information that can help users assess the likelihood that the government will be able to continue providing the same type and level of public services and also to assess whether financial burdens without commensurate related benefits will be shifted to future taxpayers.”

Paragraph 79 is the last paragraph in Concepts Statement 1 (before appendices), and as such is a conclusion rather than a springboard for the inclusion of financial projections as essential elements of fiscal sustainability. Meaningful sections and paragraphs before paragraph 79 address foundational elements of reporting objectives and cannot be overlooked when citing and interpreting paragraph 79. Examples of such meaningful constructs include sections on financial reporting limitations (paragraphs 69-73), point in time and accountability objectives (74-78), characteristics of information in financial reporting (62-68), interperiod equity (59-61), and assessing financial condition and results of operations (34-38). None of these sections emphasize the need for forward-looking information in the core financial statements. We provide a few examples in the paragraphs below.

Paragraph 61 in the section on “Interperiod Equity” clearly addresses assessing whether financial burdens have been shifted to future taxpayers and states (emphasis added):

**The Board believes that interperiod equity is a significant part of accountability and is fundamental to public administration.** It therefore needs to be considered when establishing financial reporting objectives. **In short, financial reporting should help users assess whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided.**

The last sentence in the paragraph plainly articulates that financial reporting should highlight shortfalls (if any) in current year financial results. Less than adequate revenue in one year can only be made up by future revenue streams. If there is less than adequate revenue in a given year, users and analysts of governmental financial statements will need to determine if a trend exists and examine the shortfall in relation to the most current legally adopted budget.

The implementation of GASB Statements 34 and 35 has resulted in a set of financial statements that provide a holistic financial overview of the reporting government. The government-wide reporting model provides users with the necessary information to evaluate overall financial condition. NACUBO believes that the GASB has done a remarkable job of using Concepts Statements 1 and 3 as guiding principles in meeting financial reporting objectives and communicating results through the issuance of Statements 34 and 35 and 30 subsequent standards. Full accrual accounting and reporting and measurement of assets and liabilities not previously included in the balance sheet continually refine the information that the many types of users need to assess the economic or financial condition of governments.

Further, Concepts Statement 1 appears to acknowledge that although financial reporting objectives can be met through ever evolving authoritative accounting and reporting guidance, users of financial statements may always need to go to other sources of information to fully analyze a government's condition. In addition to paragraph 35 discussed previously, the following paragraphs from Concepts Statement 1 illustrate this (with emphasis added).

Paragraph 4 states that “certain information is better provided by financial statements; other information is better provided, or can only be provided, by financial reporting outside the financial statements. But **financial reporting is not the only source of financial information about governmental entities. In many cases, users of financial reports also need to consult other sources to completely satisfy their information needs.**”

Paragraph 71 states that “**financial reporting is only one source of information needed by users to make decisions about state and local governments.** Governmental entities—and those who have an interest in them—are affected by numerous factors that interact with each other in complex ways. **To make decisions, users need to combine the information provided by financial reporting with other pertinent information,** for example, on general economic conditions or political environment.”

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

The only valid budget information would be the current legally approved budget. Public colleges and universities do not follow GASB Statement 41, “Budgetary Comparison Schedules – Perspective Differences” because our budgets do not meet the definition of legal budgets. However, a five-year projection is too long a time period to be considered reasonable. Five-year plans and budgets are compasses that facilitate objectives. Including five-year projections would be misleading and could bear little relationship to reality.

Subsequent to the economic collapse, in the fall of 2008, the vast majority of public institutions had their state appropriations immediately or retroactively cut – many by double digit percentages. What value would financial projections have been in the FY08 financial statements after the bottom fell out of the economy during FY09? What value would five-year projections have been in FY08 as the economy continues to slowly recover in 2012? Would universities now be facing litigation from donors who made contributions in 2008 based on financial projections only to see the value of their contributions decline significantly?

We agree with the alternative view of certain board members presented in paragraph 3 of chapter 6. We agree that historical schedules provided by all types of governmental entities would provide a better way of helping users assess trends. The historical information would assist with conclusions about a government’s ability to sustain current service levels. Such information is made more useful because the GASB has so effectively identified additional financial statement elements over the past decade. Financial statement users now have (or will have as implementation dates arrive) expanded disclosures, statistics and required supplemental information and enhanced government wide information on overall financial condition, infrastructure, component units, asset impairment, pensions, OPEB, derivatives, intangible assets, pollution remediation, risk, service concession arrangements, and deferrals.

With ten years of government-wide financial statements and historical data, user analysts should also be able to take advantage of various financial ratios designed to assess financial position and performance, liquidity and solvency, debt affordability (the availability of expendable net assets to cover debt over time), and liability affordability (the availability of expendable net assets to cover unfunded liabilities).

**Question # 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. Do you agree with this view? Why or why not?

NACUBO does not agree with this view. Paragraphs 43-45 in Concepts Statement 3, “Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements,” describe required supplementary information as follows (with emphasis added):

43. RSI has a **clear and demonstrable relationship to information in the basic financial statements or notes to basic financial statements to which it pertains.**

44. RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and notes to basic financial statements in context. However, **RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit's future financial position, (b) predictions about the effects of future events on future financial position,** or (c) information unrelated to the financial statements.

45. Items of information that meet the definition of and criteria for RSI are presented in that manner. Information presented in RSI is distinguished from supplementary information because the **RSI is essential for placing basic financial statements and notes to basic financial statements in a context** and is required to be presented with basic financial statements and notes.

RSI clearly should not contain subjective information or predictions about the effects of future events. NACUBO agrees with the alternative view presented in paragraph 2 of chapter 6 in the PV. We agree with the two board members who note that the purpose of RSI is to provide information essential for an understanding of the specific historical data presented in the financial statements or notes and that forward-looking financial information proposed in the PV is subjective and not essential to the financial information being presented in the general purpose external financial statements.

NACUBO shares similar concerns about the effects that presenting such information will have on the timeliness of audits. Public colleges and universities are subject to the single audit provisions of the Office of Management and Budget (OMB) Circular A-133. OMB is currently considering an expedited timeline for single audits. We fear that auditors will need extensive time to get comfortable with information that is subjective and not based upon what is reported in the audited financial statements.

In closing, we wish to express our appreciation for the opportunity to comment. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or [sue.menditto@nacubo.org](mailto:sue.menditto@nacubo.org).

Sincerely,

Susan M. Menditto  
Director, Accounting Policy