



September 27, 2022

Mr. Alan Skelton  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
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Project No. 3-41

Sent by email to [director@gasb.org](mailto:director@gasb.org)

Dear Mr. Skelton:

Thank you for the opportunity to present our comments on the Proposed GASB Exposure Draft, Project No. 3-41, *Certain Risk Disclosures*. The Colorado Government Finance Officers Association (CGFOA) assists local governments, cities, counties, and other special districts with governmental accounting and financial reporting concerns. CGFOA represents about 800 local government finance professionals within the State of Colorado. The Technical Issues Task Force of CGFOA has reviewed the proposed Exposure Draft and offer the following comments and concerns.

We believe that only known events that have occurred as of the financial statement issuance date and that will have a substantial effect on the government entity at that time should be considered for basic financial statement note disclosure. The basic financial statements should reflect known facts and should not be a vehicle for the speculation of possible future events, particularly events beyond the control of the governmental entity. Any such early warning indicator belongs within the government's required budgetary process, where the discussion can include the planned mitigation activities being considered to address such events impacting the government.

GASB appears to be expanding on the concept of "more likely than not" from the financial guarantees discussions which includes an estimate of future outflows that are known to the government, to a requirement for governments to speculate on possible events that may occur within 12 months of the financial statement date or shortly thereafter. This is inappropriate.

Further, GASB appears to also be expanding on the concept of "at least reasonably possible" from the loss contingency discussions which relate to liabilities that occurred by the date of the financial statements and for which the amount of loss can be reasonably estimated to a speculation by governments of some possible future event three years beyond the financial statement date. Again, this is inappropriate.

We are also concerned that the concept of “substantial” as it relates to the reporting of special revenue funds under GASB Statement No. 54 is not as settled as believed. We have heard of cases where “substantial” has been represented as a range as low as 20 percent and as high as 80 percent, as “substantial” or “more than material” have never been fully defined by GASB.

Therefore, we are concerned that GASB is again proposing the use of the basic financial statements to wade into the field of forecasting and speculative projections like its 2011 “Preliminary Views on Economic Condition Reporting – Financial Projections Project”. It was a concern at that time, and it continues to be a concern now.

We have also provided answers to the specific questions outlined in the electronic input form:

#### General Questions about the Exposure Draft Proposals

G.1. Which of the proposals in the Exposure Draft, *Certain Risk Disclosures* (the Exposure Draft), do you agree with? Why?

We agree that certain known concentrations or constraints that have occurred as of the financial statement issuance date and that will have a substantial effect on the governmental entity at that time may be useful.

G.2. Which of the proposals in the Exposure Draft do you disagree with? Why?

We disagree with the speculative projections of possible future events being included in the basic financial statements.

G.3. Do you believe that the information resulting from the proposed disclosure requirements in the Exposure Draft would be utilized by users in their analyses for decision making or assessing accountability?

The audited basic financial statements should not be the vehicle used for the speculation of possible future events beyond the financial statement issuance date.

Speculation of financial statement preparers is no more reliable or useful than that of other informed individuals. Putting this speculation into the notes implies a level of reliability that is not warranted and could cast doubt on the factual aspects of the statements. It could also lead users to make incorrect decisions. For example, a CFO’s speculation that a tax limitation ballot question is “more likely than not” to pass and that it is “reasonably possible” to have a substantial impact on the government is no more reliable than the speculation of others informed about the issue who think it won’t pass or who think the courts are likely to overturn it.

Such speculative information about possible future events belongs in the entity’s budget documents, not in the audited basic financial statements. It is important to note that GASB came to this conclusion after issuing the 2011 “Preliminary Views on Economic Condition Reporting: Financial Projections” which had contemplated adding forecasting/speculation to the Annual Report.

G.4. Do you believe that the proposed provisions in the Exposure Draft would be operable and auditable? If not, why?

If the required disclosures are limited in scope to the known events that have occurred as of the financial statement issuance date, then yes.

But as proposed, no, too speculative, and possibly creates unnecessary legal issues for both the government and its external auditors.

## Specific Questions about the Exposure Draft Proposals

### Scope and Applicability

S.1. Do you agree or disagree with the scope and applicability of the Exposure Draft proposals (paragraph 3)? Why?

We agree if the scope is limited to known concentrations or constraints that have occurred as of the financial statement issuance date and will have a substantial effect on the government at that time.

We disagree if the scope includes the speculation on possible future events beyond the financial statement issuance date. Such speculative information is more of a budgetary function and is not appropriate for inclusion in the audited basic financial statements.

S.2. Do you agree or disagree with the proposal to include risks related to certain concentrations and the description of that risk (paragraph 4)? Why?

We agree if the proposal is limited to known concentrations that have occurred as of the financial statement issuance date and will have a substantial effect on the government at that time.

We disagree if the proposal includes the speculation of possible future events beyond the financial statement issuance date.

S.3. Do you agree or disagree with the proposal to include risks related to certain constraints common in the governmental environment and the description of that risk (paragraph 5)? Why?

We agree if the proposal is limited to known constraints that have occurred as of the financial statement issuance date and will have a substantial effect on the government at that time.

We disagree if the proposal includes the speculation of possible future events beyond the financial statement issuance date.

### Disclosure Criteria

S.4. Do you agree or disagree with the proposed disclosure criterion that an event associated with the concentration or constraint has occurred or is more likely than not (more than 50 percent likely) to begin to occur within 12 months of the financial statement date or shortly thereafter (paragraph 6b)? Why?

We agree with paragraph a, a concentration or constraint is known to the government prior to the issuance of the financial statements. We partially agree with paragraph b, an event associated with the concentration or constraint has occurred. We disagree with using the audited basic financial statements to speculate on possible future events that are more likely than not to begin to occur within 12 months of the financial statement date or shortly thereafter

(for example, 3 months). We partially agree with paragraph c, that the known event has occurred and is having a substantial effect on the government's ability to (1) continue to provide services at the level provided in the current reporting period or (2) meet its obligations as they come due at that time. We are concerned with the use of 'the level provided in the current reporting period' as planned changes by the government would not be appropriately considered. We disagree with requiring the local government and its external auditors to speculate on possible future events that are at least reasonably possible to impact the government within three years of the financial statement date.

S.5. Do you agree or disagree with the proposed disclosure criterion that it is *at least reasonably possible* (more likely than remote) that the effect of the event will be felt within three years of the financial statement date (paragraph 6c)? Why?

We disagree, the audited basic financial statements should not be used as the vehicle for speculating on possible future events. This appears to be better suited for inclusion in the budgetary discussions and its disclosures, not within the audited basic financial statements.

S.6. Do you agree or disagree with the proposed disclosure criterion that the event will have a substantial effect on the government's ability to (1) to continue to provide services at the level provided in the current reporting period or (2) to meet its obligations as they come due (paragraph 6c)? Why?

Partially agree and disagree, if limited in scope to known concentrations or constraints that have actually occurred as of the financial statement issuance date, but not for speculations of possible future impacts three years in the future.

#### Notes to Financial Statements

S.7. Do you agree or disagree with the proposed disclosure requirement to provide a description of the concentration or constraint and associated event (paragraph 7a and 7b)? Why?

Partially agree and disagree, if limited in scope to known concentrations or constraints that have actually occurred as of the financial statement issuance date, but not for speculations of possible future impacts three years in the future.

S.8. Do you agree or disagree with the proposed disclosure requirement to provide a description of mitigation actions taken (paragraph 7c)? Why?

We agree that the disclosures should be for known actions taken and that that same threshold should also be applied to the disclosure of such known concentrations and constraints. But per this Exposure Draft, any planned mitigation efforts by the government are considered as inappropriate for inclusion in the notes. If the government and its external auditors are required to speculate as to possible future events, they should be able to address possible planned mitigation actions to address such events. It appears that the disclosure would be incomplete and misleading without such information.

S.9. Do you agree or disagree with the proposal that the disclosures generally should be provided for the primary government, unless the risk is specific to a reporting unit, in which case the information be provided for that reporting unit (paragraph 8)? Why?

Agree, if specific to a reporting unit, such as an Enterprise Fund, and not to the primary government.

## Effective Date and Transition

S.10. Do you agree or disagree with the proposed effective date of fiscal years beginning after June 15, 2023, and all reporting periods thereafter (paragraph 9)? Why?

Agree, with the limitations in scope noted in the previous questions.

## Other Feedback

O.1. What other feedback, if any, would you like to provide about the proposals in the Exposure Draft?

We disagree with the Exposure Draft trying to create an early warning indicator based on speculative possible future events beyond the financial statement issuance date of the basic financial statements. The budgetary process required of most if not all governments should be the vehicle for such speculations and the governments planned mitigation efforts to address such concerns as well.

We have also tried to identify possible concentrations or constraints that this proposal may impact.

Every government is likely experiencing a general labor shortage at this time, but as it may not be tied to a specific concentration or constraint, this proposal would not nor should not apply. Such labor shortages may also impact the level of services provided in the current reporting period.

Colorado school districts encounter issues like those in Illustration 2 related to state formula aid funding. However, the State has been using a method to reduce the formula-generated amount of funding for schools for years, known as the budget stabilization factor. The year-to-year reduction historically has not been substantial, except for the initial year (2010) and the year of the pandemic. But like the reductions related to 2010, the pandemic-year reduction in state aid was offset by federal funding. However, the nature and amount of such federal funding was not known as of the financial statement date. Any note disclosures that only addressed the state aid reduction for that year would have been incomplete and misleading.

Further, regarding the state aid reduction discussion above, Colorado school districts have a statutory limit, like Illustration 4. Under the cap, school districts can ask taxpayers for mill levy override funding not to exceed 25 percent of total program funding. However, a different statutory provision allows school districts to request mill levy override funding without any limitation for similar general fund activities (maintenance) to that of the capped statutory provision. Note disclosures which address one statutory limit without discussing the other would be misleading.

Also, as any mill levy override election would be in November, after the districts' June 30th year end, if any mitigation events must be implemented in order to be discussed, is it highly likely that a school district may choose to delay the issuance of its financial statements until after a favorable outcome is known. The timely issuance of audited financial statements is already a concern for all, any further delays are unacceptable and should be avoided.

Please feel free to contact CGFOA's Technical Issues Task Force Chair, Kirk Weber, by email at [kweber7238@gmail.com](mailto:kweber7238@gmail.com), if you have any questions

Thank you,

*Marlin McDaniel*

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*On behalf of the CGFOA Technical Issues Task Force:*

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Carol Block  
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