



September 23, 2022

Alan Skelton
Director of Research and Technical Activities
Governmental Accounting Standards Board
801 Main Avenue
Norwalk, Connecticut 06851

Re: Project No. 3-41

Dear Alan:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Exposure Draft (ED) of the Governmental Accounting Standards Board, *Certain Risk Disclosures*. NACUBO is a nonprofit professional organization representing chief financial and administrative officers at 1,700 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting industry guidance for higher education and educates thousands of higher education professionals annually on accounting and reporting issues and practices.

NACUBO's comments on the ED were developed with input from its 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.

Overall Observations and Conclusions

We appreciate the time and effort the staff have devoted to provide guidance with respect to the disclosure of information about risks associated with certain concentrations and constraints. However, we are concerned about the requirement that governments provide forward-looking disclosures in the notes to the financial statements. We believe such information is better presented in Management's Discussion and Analysis.

Disclosure Criteria

Paragraph 6 of the ED requires disclosure of a concentration or constraint in the notes to the financial statements when all the following criteria are present:

- a. A concentration...or constraint...is known to the government prior to the issuance of the financial statements.

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- b. An event associated with the concentration or constraint either has occurred or is more likely than not to begin to occur within 12 months of the financial statement date or shortly thereafter (for example, 3 months).
- c. It is at least reasonably possible that within three years of the financial statement date, the event will cause there to be 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.

These disclosure criteria conflict with Concepts Statement No. 7, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements: Notes to Financial Statements*. Paragraph 10 states, in part:

The following types of information are not appropriate for notes to financial statements:

- a. Subjective assessments of the effects of reported information on the government's future financial position, other than expectations and assumptions about the future that are inputs to current measures in the financial statements or notes to financial statements
- b. Predictions about the effects of future events on future financial position....

Criteria b. and c. in paragraph 6 of the ED explicitly require such subjective assessments and predictions. If an event associated with a concentration or constraint has occurred as of the financial statement date or occurs prior to the issuance date of the financial statements, we believe existing GAAP already provides sufficient disclosure guidance.

However, if an event has not yet occurred, the ED would require issuers to prognosticate events that are largely beyond their ability to control or affect. Recent history is replete with examples of such events, not the least of which is the COVID pandemic. As late as December 2019, even with knowledge of a novel virus spreading in China, it is unlikely that anyone thought a worldwide pandemic was more likely than not to occur within a year. Yet by April 2020, the world was in lockdown mode.

It is unduly burdensome for any preparer, especially those without significant risk management expertise, to perform the required assessments of risk likelihood and magnitude of possible future events in a timely manner. Further, preparers have different levels of expertise at assessing the likelihood and magnitude of future events. Finally, the ED provides no guidance about appropriate measurement of service levels in the current reporting period, and whether this criterion includes both essential and non-essential services.

These factors will lead to situations where governments facing identical risk event profiles reach different conclusions about whether the disclosures required by the ED should be made.

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Disclosure of Mitigation Actions

Paragraph 7. of the ED sets out the disclosures required for concentrations and constraints that meet the disclosure criteria.

7. ...A government should provide information in sufficient detail to enable users of financial statements to understand the general nature of the circumstances disclosed and their potential effect on the government's ability to provide services at the level provided in the current reporting period or to meet its obligations as they come due. The disclosures should include the following:...

- c. A description of actions taken by the government **prior to the issuance of the financial statements** to mitigate the substantial effect. [emphasis added]

The ED makes no provision for disclosure of planned mitigation actions. In paragraph B41, the Board states that disclosure of planned mitigation actions “may constitute a prediction about future events or their impact on...future financial position” and are thus inappropriate for note disclosure per Concepts Statement No. 7. *However, this is exactly what the ED requires for applicable concentrations and constraints.*

The inconsistency in application of the concepts statement to paragraphs 6 and B41 of the ED results in an incomplete picture of the risk facing the government. Such an incomplete picture reduces the utility of the proposed disclosures. We believe inclusion of information concerning risks, events, and related mitigation actions, **both actual and expected**, in MD&A is necessary to provide a more complete picture of the risk and is more consistent with Concepts Statement No. 7.

Ability to Audit Disclosures

In addition to the conceptual issues noted above, there are practical matters to consider. The most critical of these is the auditability of the disclosures, particularly the assessment of the likelihood of an event occurring after the financial statement date, and the magnitude of the effect of such an event on the government's ability to maintain current service levels and/or meet obligations.

User Confidence

Another key practical consideration is the impact of the disclosures on financial statement users. Information contained in the notes to the financial statements is subject to audit, thus receiving a degree of assurance from the government's auditor. If discussion of possible future mitigation actions is limited to MD&A, which is **not** covered by the auditor's opinion, users are likely to give these potential actions less weight. This results from inconsistent application of Concepts Statement No. 7, as noted above. In our view, this imbalance is not appropriate, and dilutes the usefulness of the information to financial statement users.

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Location of Disclosures

Although we appreciate the Board's desire to provide a mechanism to give financial statement users an "early warning" before going concern considerations arise, we believe the notes to the financial statements are not the appropriate place for the required information to be presented.

Paragraph 4 of Concepts Statement No. 1, *Objectives of Financial Reporting* states:

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. [emphasis added]

Statement No. 34, paragraph 11.h. requires Management's Discussion and Analysis (MD&A) to include

A description of currently known facts, decisions, or conditions that are **expected to have** a significant effect on financial position...or results of operations.... [emphasis added]

In other words, existing standards already require a degree of forward-looking analysis. Providing forward-looking analysis regarding potential future events is a logical extension of this MD&A requirement. We believe the risk disclosures presented in paragraph 7 of the ED are better suited to the MD&A. This would provide management with the ability to present a more complete picture of the relevant risks and potential impact on service levels. In addition, it would remove concerns about the auditability of the subjective elements of the ED.

Considering the foregoing, we respectfully request that the Board revisit the requirement that risk disclosures contemplated by the ED be disclosed in the notes to the financial statements. Instead, we suggest that the information required by paragraph 7 of the ED should be **included in Management's Discussion and Analysis** when appropriate, using the criteria set forth in paragraph 6 as guiding principles rather than specific bright-line criteria. Such guiding principles should allow management to discuss possible future mitigation activities as well as those already undertaken.

In closing, we appreciate the opportunity to comment. We welcome questions the Board or the staff may have about our response. Please direct your questions to me at 202-861-2542 or smenditto@nacubo.org.

Sincerely,



Susan M. Menditto
Senior Director, Accounting Policy

NACUBO

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