

## Letter of Comment No. 86 File Reference: 13-3PV Park Area Business Officials Received: 3/16/12

## **Members**

Natalie Morin Cheyenne Mountain #12 morin@cmsd.k12.co.us 475-6103

Glenn Gustafson Colorado Springs #11 gustaged11.org 520-2042

Joleen Schaake Pueblo #60 joleen.schaake@pueblocityschools.us 719-549-7113

Tim Miller Manitou Springs #14 tmiller@mssd14.org 685-2015

Kevin Smelker Harrison #2 ksmelker@hsd2.org 351-7013

Don Smith Academy #20 donald.smith@asd20.org 234-1222

Tom Gregory Academy #20 tom.gregory@asd20.org

Cheryl Wangeman Lewis Palmer #38 cwangeman@lewispalmer.org 488-4705

Joanne Vergunst Fountain-Fort Carson #8 jvergunst@ffc8.org 382-1306

Dana Thomson Harrison #2 dthomson@hsd2.org 579-2037

Angie Skalla Widefield #3 skallaa@wsd3.k12.co.us 391-3025

Brett Ridgway Falcon #49 bridgway@d49.org 495-1134

Brian Gustafson Woodland Park RE-2 bgustafson@wpsdk12.org

Eldon R. Elarton Pueblo County School District 70 eelarton@district70.org 719-295-6545

Ken Wieck Colorado Springs #11 wieckkl@d11.org 719-520-2293

David Hart Denver Public Schools david\_hart@dpsk12.org 720-423-3490 March 15, 2012

Director of Research and Technical Activities, Project No. 13-3 Governmental Accounting Standards Board 410 Merritt 7, P.O. Box 5116 Norwalk, CT 06856-5116

Dear Sirs:

Thank you for the opportunity to provide input on this Preliminary View (PV) document. This letter is written on behalf of the Pikes Peak Association of School Business Officials representing approximately 280,000 students in school districts along the front range of Colorado. We agree with the alternative view that **projections should not be required as RSI.** The annual financial report contains historical information with limited subjectivity. The entire perspective of the report is changed by including projections, which will most likely cause misconceptions about the information contained and the reliance placed upon the statements. Many users will see the entire annual financial report as "audited", therefore reliable, and will not understand the change in auditor's responsibility with regard to the projections presented.

The annual financial report contains information that is historical and verifiable as of a point in time, and is generally an unchanging document. Projections, by nature, are less certain and require continuous updating for ever-changing events. Budget law in the state of Colorado allows for budget supplements and amendments within a fiscal year. Governments would be required to use data for projections that will often be invalid shortly after the projections are completed. This is true for yearly projections, and certainly for five year projections.

School districts in Colorado are required by state statute to submit audit reports within five months of the fiscal year end. Many have a difficult time completing the Comprehensive Annual Report (CAFR) by the required deadline. Both the State of Colorado and Colorado Public Employee Retirement Association (PERA) have strong interdependent relationships with our school districts. To avoid material misstatements, these interdependent entities would have to issue their annual financial statements prior to the districts, allowing us time to include relevant projections in our statements. This requirement would further delay the release of the CAFR. We believe that requiring financial projections would require more manpower and put a burden on already strained resources.

Including projections as part of the audited financial statements will most likely add to the audit cost and may be cost or time prohibitive for some governments, but exclusion would result in a qualification on the audit report. We have been informed by the financial unit of the Colorado Department of Education that if the state auditor deems the audit report unacceptable, they have the authority to notify local treasurers to prohibit the release of property tax moneys (local funding). Additionally, a district's lack of compliance with financial provisions may jeopardize accreditation, which would endanger state funding.

Users may develop expectations with respect to the future, irrespective of the disclaimer. Labor and contract negotiations rely heavily on yearly projected resources. Including more than one year in these discussions will make future year negotiations extremely difficult.

Below are our responses to the specific questions posed in the preliminary view:

- 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, paragraph2):
  - a. Component 1----Projections of the cash inflows and major individual cash inflows, in dollars and as a
    percentage of total cash inflow, 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, in 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)
  - c. 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 obligations (Chapter 3, paragraphs 15-20)
  - d. Component 4----Projections of annual debt service payments (principal and interest) (Chapter3, paragraphs 21-23)
  - Component 5----Narrative discussion of the major intergovernmental service interdependencies that
    exist and the nature of those service.

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

Although we agree that all five components of information are valuable in assessing an entity's fiscal sustainability and are important tools from a management perspective, we disagree that the appropriate placement for that data is in the RSI.

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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 includes 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?

We disagree. From a practical standpoint, basing five-year projections on current policy would be unreliable because local governments can have a substantial change in their legislative body every two years. Given our state and local political processes, any projection based on current policy would be unreliable beyond a two-year period and any explanation of the causes for the unreliability would further confuse the user. A governing board in the state of Colorado cannot commit resources for a future board. By including this data in an audited annual financial rport, it could be construed that the current board has committed funds for the next four years. A new governing board of the district or the state may change the goals and objectives of the entity, thereby making the projections no longer relevant to the decision makers.

For further consideration, in Colorado, 178 school districts could potentially use 178 different estimates for future rates of inflation, assessed value growth and K-12 state funding since the state is unwilling or unable to provide multi-year projections, making comparability less meaningful.

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?

No opinion on this item.

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?

We agree with the principles-based approach.

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?

We disagree for the reasons stated in question #2.

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?

We disagree. By definition, RSI is essential information needed to understand the historical financial statement data presented in the basic financials. Projections do not meet this criteria. Including financial projections within the Comprehensive Annual Financial Report (CAFR), as contemplated by this PV, would be misleading to the users of the CAFR, and would infer that users may place reliance upon this data on a level that is unmerited by the data itself. This process may be potentially damaging to the credibility of the data currently contained in the CAFR.

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?

 $We \ disagree \ that \ the \ projected \ statements \ should \ be \ required \ as \ supplemental \ information.$ 

8. Do you believe that a phase-in period for implementing the reporting requirements for financial projections and related narrative discussions would be appropriate? If so, what phase-in criteria would you recommend?

We disagree that the projected statements should be required as supplemental information. However, if the Board decides to issue a statement that requires information related to financial projections, we believe that initially a pilot group should be established and the projected data evaluated to determine if the data accomplishes the intent of the pronouncement.

Thank you for allowing us the opportunity to respond to this document. If you have any questions about the Pikes Peak Area Business Officials' response, please contact Tom Gregory, Academy School District Chief Financial Officer, at 719-234-1268 or by e-mail at <a href="mailto:tom.gregory@asd20.org">tom.gregory@asd20.org</a>.