



COLORADO DEPARTMENT OF EDUCATION

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Robert K. Hammond
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March 16, 2012

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

Sent via email to: director@gasb.org

Dear Mr. Bean:

This response is being provided on behalf of the Colorado Department of Education and Colorado School Districts. We appreciate the opportunity to respond to the Governmental Accounting Standards Board's (GASB) Preliminary Views related to Economic Condition Reporting: Financial Projections.

The Financial Policies and Procedures Advisory Committee of the Colorado Department of Education, as representatives of the 178 school districts and other K-12 public educational entities in Colorado, strongly disagree with your position that financial projections are essential information that must be placed in a governmental annual financial report. We agree that long-term budgets and projections are an important management tool. However, is not be included in a historical, audited annual financial report.

We also disagree that this type of projected information is necessary for outside financial statement users to make a determination of the entity's ongoing ability to generate resources. Below are comments that support our position.

1. **Contradictory to what an annual financial report represents.** The annual financial report contains historical financial information with limited subjectivity. The entire perspective of the report is changed by including projections. Adding projections will most likely cause misconceptions about the information contained and the reliance placed in and upon the statements.
2. **Contradictory to definition of Required Supplemental Information (RSI).** By definition, RSI is essential information needed to understand the historical financial statement data presented in the basic financial statements. Projections do not meet this criterion.

3. **Reliance on the information contained in the annual financial report.** By including five years of projections in the audited financial reports, users may develop expectations on future results that may not come to fruition. Labor and contract negotiations rely heavily on yearly projected resources available for labor needs. Including more than one year in these discussions, which would now be perceived to be audited, therefore fact, will make future year negotiations extremely difficult. Employees may develop expectations of future wage and benefits that may not be met. The unsophisticated users/the layman public will still see the entire annual financial reports as being “audited”, therefore reliable, and will not understand the change in the auditor’s responsibility in regard to the projections presented in the reports.
4. **Lack of Comparability.** Using highly subjective information creates a lack of comparability between entities. In Colorado, 178 school districts may use 178 different estimates for future rates of inflation, assessed value growth, and K-12 funding from the state making comparability less meaningful. In addition, it is unclear how an entity would show a balanced budget which is a State of Colorado requirement for school districts.
5. **Cost/Benefit.** Changes to accounting standards must be sensitive to the increased cost that is incurred to comply with the change, especially in these times of dwindling resources. Long-term projections as an internal management tool are prepared on a basis that is consistent with the entity’s needs. To follow the prescribed format as proposed would create duplication of effort. Many of our entities are very small with one person doing the job of many. The time spent on a document that will be misconstrued by the unsophisticated user seems to have a negative benefit to all.

Limited staff resources will create additional costs related to the increased use of outside professionals such as actuaries, auditors, demographers and other consultants. Auditor costs would be expected to increase due to their increased exposure to risk. Due to the economic times, our school districts are looking at their third year, the larger districts in their fourth to fifth year, of reducing classroom teachers. Any additional costs incurred by the districts will take resources directly from our classrooms, thereby, directly having a negative effect on our most valuable resource, our children.
6. **Timeliness.** The addition of financial projections will certainly extend the time necessary for the issuance of the annual financial reports. Two other entities have strong interdependent relationships with our school districts, the State of Colorado and the state Public Employee Retirement Association. To correctly state the yearly amounts, these interdependent entities would have to issue their annual financial statements prior to the districts being able to include the PV projections in our statements. We see this as creating insurmountable timing issues. There are still three more phases to complete prior to issuance 1) preparation of the financial projections, 2) procedures performed by the auditor, and 3) review and acceptance by the governing body.
7. **Endangerment of Funding Stream.** If a school district is unable to include these financial projections in their annual financial statements, the state auditor can deem the audited financial statements as ‘not acceptable’. According to our state law, local property tax could be withheld from the district.

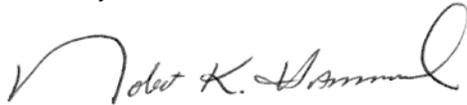
8. **Limited usefulness of the proposed projection format.** The annual financial report contains information that is historical and verifiable as of a point in time, and is generally an unchanging document. Projections, by nature, are less certain and require continuous updating for ever-changing events. 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, let alone projections going out for five years. The range included in these projections is not within a normal relevant range, thereby creating irrelevance.

9. **Political conflicts.** A governing board in the state of Colorado can not commit resources for a future board. By including this data in an audited annual financial report, 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.

In conclusion, we firmly believe that financial projections should not be a required component of the annual financial report. As such, we did not respond to the eight questions specifically outlined in the PV. Some of the concerns identified in the Preliminary Views are already being addressed. In the State of Colorado, school districts already have transparency requirements. These projections could be added to the already required budget presentation. Another transparency requirement is that the districts have to disclose where the public may obtain additional information which could include these financial projections.

Thank you for the opportunity to submit our response.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert K. Hammond". The signature is fluid and cursive, with a large initial "R" and "H".

Robert K. Hammond
Commissioner of Education