Letter of Comment No. 4 File Reference: 25-19E Date Received: 11/28/11

## State of Colorado

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November 23, 2011

Director of Research and Technical Activities Project No. 25-19 Governmental Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

Dear Mr. Bean:

This letter is the Colorado Office of the State Controller's response to the Exposure Draft (ED) document titled <u>Technical Corrections – an amendment of GASB Statements No. 10 and No. 62</u>. Thank you for the opportunity to participate in this important due process.

We believe this Exposure Draft identifies substantively conflicting guidance and identifies the appropriate resolution of two of the three conflicts. Specifically, we believe

- it is appropriate for risk financing activities with original source revenue to be reported under the fund classification guidance of Statement No. 54, and
- deleting the GASB 62 text related to scheduled rent increases will appropriately direct authoritative guidance to GASB 13 and allow fair value reporting for operating leases when appropriate.

However, we do not agree with the Board's conclusion regarding the harmonization of GASB Statement No. 48 and No. 62 regarding the purchase of loans or groups of loans.

Although it is not specifically stated in the Exposures Draft's sections on Standards of Governmental Accounting and Financial Reporting, Appendix A – Background, or Appendix B – Basis for Conclusion, it appears the Board has chosen to ignore the future effects on interest earnings of recording purchased loans at the exchange price without recognizing premium or discount associated with current lending rates. We believe this conclusion is implicit in the deletion of the GASB 62 paragraph 442 text, "This difference should be recognized as an adjustment of yield over the life of the loan." We do not believe this achieves the goal of demonstrating interperiod equity. Under the Board's proposal, in the instance of the purchase of loans carrying above current market rates, current resources will be surrendered that will result in interest earnings in future years above the market rate at the time of the purchase decision. We believe it may be appropriate for government managers and financial statements prepares to determine that the Board's proposed treatment is appropriate on the basis of materiality, but we believe it is not appropriate for the Board to preclude the recording of loan premium or discount when those amounts will materially affect future loan interest recognition. Therefore, we believe the Board should

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revise GASB No. 48 to provide for the recognition of loan premium or discount when those amounts would materially affect future interest income recognition in financial statements prepared under the economic resource flows measurement focus.

Using the current version of the GASB's Governmental Accounting Research System that includes GASB statements issued through June 30, 2011, we were unable to follow the paragraph references in the Codification Instructions for Section L20. Specifically, the Codification Instructions require deletion and moving of paragraphs .121 and .123, respectively. Since those paragraphs are related to interactions between state and local governments and public authorities (not related to scheduled rent increases), we suspect those directives are to remove references to FASB 13; however, paragraphs .122 and .124 contain similar references and were not subject to changes. We found this confusing. In addition, the instructions reference paragraphs .133 and .134, which do not appear to exist in L20. We request clarification of these directions.

Thank you for the opportunity to participate in this important due process.

Sincerely,

David J. McDermott, CPA Colorado State Controller

David J. M. Demott