Letter of Comment No. 4 File Reference: 3-17E Date Received: 5/21/12

## State of Colorado

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April 18, 2012

Director of Research and Technical Activities Project No. 3-17 Governmental Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

Dear Mr. Bean:

This letter is the Colorado State Controller's Office response to the Exposure Draft document titled <u>Government Combinations and Disposals of Government Operations.</u> Thank you for the opportunity to participate in this due process.

In general, our office supports and agrees that the proposed standard results in improved financial reporting. We feel that the valuation methodologies for government combinations and referenced adjustments are appropriate based on consideration, or lack thereof. However, we believe the provisions of paragraph 20 and 40 could be further modified.

In most instances, we would expect a merger into a continuing government to coincide with the reporting period. However, when that is not the case, we disagree that the acquisition be considered to have occurred as of the beginning of the reporting period rather than at the actual date of the merger as outlined in paragraph 20. Paragraph 62 of the Basis for Conclusion indicates that the proposed treatment is useful in assessing trends and evaluating how the continuing government's position has changed as a result of the merger. An evaluation of financial position can only be effectively achieved when operations pre-merger are presented as compared to post-merger for an equivalent time period, and requiring an effective merger date other than the actual merger date does not accomplish that comparison. The treatment of a merger occurring at an interim date as having occurred as of the beginning of the reporting period brings activity into the financial statements for which the continuing government had no legal responsibility. We believe that any such information to assist the readers in understanding the impacts of the combination should be accomplished through note disclosure.

Additionally, for acquisitions in which the consideration provided is less than the net position acquired, we concur that the acquisition price is an indication of value. However, we find the requirement for proportional reduction in long term assets (except long-term investments reported at fair-value) to be inappropriate. We believe that a gain should be recognized immediately at acquisition because the long term assets are likely to include items such as loans and taxes receivable that will liquidate at the face amount, which is likely to align with fair value. If this approach is not taken, subsequent collection of the receivables at the original value will require the recognition of a gain. In addition, we believe that the special item referenced at the end of paragraph 40 can only be a gain on acquisition when the amount paid is less than the fair value of long-term investments, and we believe that should be made clear in the body of the standard.

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Thank you for considering our comments on Exposure Draft No. 3-17.

Sincerely,

Tammy Nelson, Reporting & Analysis Manager Colorado Office of the State Controller

and

David J. McDermott, Colorado State Controller