



March 31, 2017

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
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Project No. 3-25I

Sent by email to director@gasb.org

Dear Mr. Bean:

Thank you for the opportunity to present our comments on the Governmental Accounting Standards Board (GASB) Invitation to Comment (ITC), *Financial Reporting Model Improvements - Governmental Funds*, Project No. 3-25I. The School Finance and Operations Division of the Colorado Department of Education represent a financial statement user that is also a pass-through entity for Federal Financial Assistance to Colorado School Districts.

General Comments

The School Finance and Operations Division of the Colorado Department of Education reviews the annual external financial statement audits for 178 school districts, 193 charter schools, and 25 other reporting entities. These financial statement audits represent the smallest rural school district in the state (Agate with a 26.5 funded pupil count) to the largest urban school district in the state (Denver County with 82,124.0 funded pupil count). Regardless of size, any changes to the current financial reporting model will impact all Colorado school districts and other reporting entities.

Under the current reporting models, up to four different presentations of the financial information are being provided: the full accrual (Government-wide and proprietary funds) method, the modified accrual (Governmental funds) method, the budgetary (non-GAAP) basis of accounting, and a statutory (TABOR - fiscal year spending) basis of accounting.

Due to the statutory requirement that Colorado school districts and other reporting entities provide for an adopted budget and that a statement/schedule of comparison of budget to actual is needed to demonstrate legal compliance for each fund, any changes to the Financial Reporting Model should be closely aligned with this budgetary process and the budgetary basis of accounting presentation.

Also, any GASB Statements and direction that provides for consistent application across reporting entities for the same and/or similar activities would be greatly appreciated.



Answers to Selected Specific Questions

2.1. Do you believe that governmental fund financial statements should continue to present information that reflects a shorter time perspective than the information presented in the government-wide financial statements and that focuses on financial, rather than economic, resources? Why?

Yes. A financial resources perspective, similar to the current financial reporting model focusing on budgetary process would be the most helpful. Given the statutory requirements to adopt budgets, the board of the reporting entity is focused on financial activities related to the next operating cycle for budgetary projections, as well as, seeing how they did against the current year's operating cycle.

2.2. Do you believe that governmental fund financial statements should continue to present information that facilitates comparisons with a government's budgetary information? Why?

Yes. Comparisons with a government's budgetary information demonstrates legal compliance by the reporting entity and is the focus of the governing board.

2.3. Which of the three recognition approaches provides the most relevant information for assessing fiscal accountability of the government? Why do you consider that information most relevant?

If a change is made to the current reporting model, the approach that most closely aligns with the budgetary process would provide the most relevant information.

One of the issues with the current modified accrual model is that the period of revenue recognition can present reporting issues with regard to Federal grant accounting. For Colorado school districts, the amount of earned, but unpaid wages being reported as an accrual liability as of year-end, is also offset by a valid accounts receivable at year-end as well. However, with the limitations on cash management for a reimbursable grant under Federal financial grants, the school district is not in a position to request reimbursement of the financial activities until the actual cash is paid out, in this case, the end of August (for a June 30th year-end). Therefore, with a district with a revenue recognition policy of 60 days, the amount of the valid accounts receivable that is not received within the 60 days will be reported as a deferred inflow of resources (unavailable revenue). For most Colorado school districts, this reporting creates a negative unassigned fund balance for its designated purpose grants special revenue fund. This particular treatment is not helpful from the understanding of the layperson. It does not appear that the "near-term" approach would address this concern.

A concern with the "short-term" approach, is that the focus is on the next operating cycle and not on the currently reported operating cycle - obligations for the next year are reported as liabilities at the end of the current year. In addition, this reporting model provides for the pension liability to be determined based on the actuarially determined contribution instead of the statutorily determined contribution, something that is not readily available to the reporting entity in a cost sharing arrangement.

For the "long-term" approach, the reporting of the pension liability is problematic. In Colorado, the local school boards do not have control over the pension liability nor do they have any control over the setting of the contributions for such pensions. They cannot impact the reporting of the pension liabilities, even if they wished to do so.

2.4. Transactions related to tax anticipation notes or revenue anticipation notes are presented differently under the three recognition approaches. In the near-term approach, borrowings on and repayments of these notes would be reported as inflows and outflows of resources on the statement of resource flows and in the reconciliation to the government-wide statement of net position. In the short-term and long-term approaches, outstanding balances of these notes would be reported as liabilities on the balance sheet, and borrowings on and repayments of these notes would be reported in the statement of cash flows. (See the discussion in Chapter 3.) Which approach to the reporting of these notes provides the most valuable information? Why?

The current approach for reporting debt is preferable. We believe that fund reporting should align with the budget, therefore only current year debt activity should be reported. We understand the concern with the use of short-term borrowings that are not repaid by the end of the reporting period, but such activities do show up in the reconciliation to the government-wide statements.



2.5. Views vary on the definition of financial resources—a concept integral to all three recognition approaches. (See the discussion in paragraphs 38-40 of Chapter 2.) What definition of financial resources provides the most valuable information? Why? Do you consider prepaid items to be financial resources? Why? Do you consider inventory to be financial resources? Why?

Our concerns with possible changes to the treatment of prepaid items and inventories relates to how they are recognized by Federal grant programs currently. The Uniform Grant Guidance provides for the recognition of prepaid items when the underlying obligation has not occurred. The Federal grant program cannot be charged for activities that have not yet provided a current benefit to the program. The Guidance provides for a similar treatment for inventory items, with the implied use of the consumption method over the purchase method. Any changes to the model that deviates from the Uniform Grant Guidance would be problematic.

2.6. For the recognition approach that you believe provides the most valuable information, how would you change that recognition approach to provide information that is more valuable? How would those changes make the information more valuable?

For the current modified accrual approach, provide for a revenue recognition approach that addresses the concern of having to report a deferred inflow of resources for the untimely receipt of a valid accounts receivable after a certain date. It appears that many governments are avoiding this issue by defining a revenue recognition period for non-property tax receipts that is up to one year in length.

As noted above, do not change the current treatment for prepaid items and inventories unless the concerns with Federal grant reporting are addressed.

An additional concern with the current modified accrual approach relates to the handling of forward delivery agreements. When these arrangements are present it is likely that the government is using a budgetary approach in order to spend the resources from such forward delivery agreements in the current period as opposed to the GAAP treatment of only recognizing the “earned” portion of such agreements over time. In this case, the budgetary presentation is more relevant to the government than the GAAP governmental funds presentation.

2.7. Paragraph 6 of Chapter 2 discusses a same-page reconciliation to government-wide information and the use of specific terminology to more clearly communicate that the information in governmental fund financial statements is of a shorter time perspective than information in the government-wide financial statements and focuses on financial, rather than economic, resources. Are these changes effective in communicating that the information in governmental fund financial statements is different from the information in government-wide financial statements? How could those differences be communicated more effectively?

We are not sure that the language is more relevant. Any changes from the current model will require re-educating the boards and communities on the changes and the benefits/challenges from such presentations.

3.1. Which format for the governmental funds resource flows statement—existing format or current and long-term activity format—provides the most valuable information about governmental funds? Why do you consider the information to be more valuable?

Probably the existing format, the focus on “long-term” activities within a “near-term” statement could get confusing for the layperson. In addition, the splitting of transfers into near and long term could present issues with the current and long-term activity format.

3.2. Should a statement of cash flows be required for governmental funds? Why?

As we are favoring the current modified accrual approach or a budgetary approach similar to the near-term model, a statement of cash flows should not be needed.

3.3. What difficulties, if any, would arise in presenting a statement of cash flows for governmental funds?



The difficulties would be with educating the boards and financial statement users on the purpose and benefit for a cash flow statement for each governmental fund.

3.4. Are the four classifications for the statement of cash flows from Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, the most appropriate for governmental funds? If not, what classifications would be most appropriate?

Keeping the current format of the statement of cash flows as used for proprietary funds would provide the most consistency. If changes are made to the current format, they should be made for all uses of the statement of cash flows by the reporting entity.

If you have any questions, please feel free to contact Kirk Weber at weber_k@cde.state.co.us or at 303 866-6610.

Thank you,



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