



National Association of State Auditors, Comptrollers and Treasurers

February 25, 2011

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Mr. David Bean
Director of Research
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

We generally agree with the ED's provisions for reporting deferred inflows, deferred outflows, and net position. The guidance should aid in the understanding and consistent reporting of these items. However, we do have the following comments and concerns we believe the board should consider as it finalizes this statement.

Paragraph 7

Our members were split as to whether deferred outflows of resources and deferred inflows of resources should be presented in separate sections following assets and liabilities, respectively, in a statement of financial position.

Those members that agree with the requirements of paragraph 7 believe that the proposed standard will allow for consistent presentation of deferrals and clearly differentiate these elements from assets and liabilities. In addition, keeping the deferral balances separate from assets and liabilities honors the distinction established by the separate definitions in Concepts Statement No. 4.

Those members that disagree with separate presentation do not believe it will provide users with additional, significant information, and will unnecessarily clutter the presentation, reduce readability, confuse the reader, and cause further collapsing of statement of position line items to maintain single page presentations. In paragraph 25, the Board argues that presenting deferred items in a single section would suggest they are closely related and subject to an offsetting relationship. Some members do not agree with this reasoning and believe such a presentation would no more suggest a close or offsetting relationship than is implied in the "Other Financing Sources and Uses" section of the governmental fund *Statement of Revenues, Expenditures, and Changes in Fund Balances* or in the "Contributions, Transfers, and Other Items" section of the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*.

Of those members that disagreed with the separate presentation, many suggested renaming the sections "Assets and Deferred Outflows" and "Liabilities and Deferred Inflows" and including the deferred outflows and inflows as separate lines within those sections. Although this may appear to dilute the difference between these sections, these members believe it still provides the distinction needed. In addition, it presents the users with relevant information pertaining to the deferred outflows and inflows, and maintains the integrity of the balance sheet presentation that is essential to financial reporting.

Disclosure Requirements

We agree with the disclosure requirements in paragraphs 13 and 14, that governments should disclose details of different types of deferred outflows and inflows in the notes to the financial statements if significant components of the total deferred outflows and inflows are obscured by aggregation. In addition, we agree that disclosures are necessary to explain the effect of deferred outflows and inflows, when significantly impacting a component of net position.

Paragraph 8

We believe the Board should consider incorporating the second sentence of paragraph 23, ("It does not, however...") and the last sentence of paragraph 23, ("The applicability of the guidance...") into paragraph 8 of the ED. This would help avoid confusion and provide clarity by placing the scope within the main section of the statement rather than in the Basis for Conclusions.

Paragraph 19

The last sentence in paragraph 19 (and the summary of the ED) clarifies that governments should not reclassify amounts as deferred outflows of resources or deferred inflows of resources until required to do so by a GASB pronouncement. We believe this would be more appropriately included in the statement itself rather than an appendix.

Paragraph 27

This paragraph indicates that the Board analyzed various types of deferral transactions but provides no detail as to the nature of those various types. It would be helpful if the Board could provide additional examples, perhaps by adding a section or paragraph that outlines all deferred outflow/inflow topics which have been addressed in previous and proposed guidance, and any exclusions or exceptions that may apply.

Paragraph 30

We suggest the board consider referring to GASB 60, *Service Concession Arrangements*, as another example (similar to the discussion in paragraph 19) of existing authoritative standards whereby GASB requires recognition of these deferred items.

In addition to the comments above, we also have the following comments relating to the proposed revisions to the codification.

Section 1300.120

This paragraph refers to footnote 10 and says "replace *net assets* with *net position*." We believe this terminology should also be updated in footnote 1 of Section 1300.

Sections 1800.132, 2200.117, 2200.149, 2600.116, and S40.122

The usage of "statement of financial position" is confusing because of the similarity to the new financial statement, "statement of net position." We believe the board should clarify whether its intent is to reference a financial statement (statement of net position) or the general definition (financial position).

Section 2200.116

The ED states: "Replace paragraphs .115-.118, including headings and footnotes, with the following:" There is not a replacement paragraph .116 in the ED. Is it the Board's intent to delete this paragraph from the codification?

Section 2200.172

The penultimate sentence states: "*Net assets* resulting from certain capital contributions may be required to be reported as *investment in capital assets*, as discussed in paragraph .118." Using the phrase "net assets" is confusing and may be better worded as "Assets resulting from..." In addition we believe the term *investment in capital assets* should be *net investment in capital assets* to be consistent with the new terminology for this component of net position.

Section 2300.107

The ED states: "...add subparagraph rr at the end of the paragraph..." The last subparagraph is pp; therefore, it appears the new paragraph should be labeled qq instead of rr.

Section 2500

The ED does not indicate the need to update the illustrative disclosure in the Nonauthoritative Discussion, specifically, the terminology within the Condensed Statement of Net Assets and the Condensed Statement of Revenues, Expenses and Changes in Net Assets.

Section 2800.107, footnote 4

The ED does not indicate the need to update the usage of "net assets" throughout footnote 4 with "net position" or to remove "fund equity."

Sections 2800.111, footnote 5; D40.115, footnote 6; D40.116, footnote 7

The ED does not indicate the need to update the usage of "net assets" with "net position."

Section L10.109

The fourth sentence states, "The accumulation of earmarked *net assets* in a governmental fund for eventual payment of unmatured general long-term indebtedness, including landfill closure and postclosure care costs, does not constitute an outflow of current financial resources and should not result in the recognition of an additional governmental fund liability or expenditure." Using the phrase "net assets" is confusing. We recommend this be changed to, "The accumulation of earmarked assets in a governmental fund..."

Section N50.119

The last sentence states, "Resulting net position (or equity or fund balance, as appropriate) should be reported..." We believe the phrase "or equity" should be removed from this paragraph to be consistent with changes to paragraph N50.111.

Section P80.115

Heading – We believe the term "Net Assets" in the heading should be replaced with "Net Position."

Sections Pe5.119 and Po50.121

We believe the phrase "and deferred outflows of resources" following "total plan liabilities" should be changed to "and deferred inflows of resources..."

Section Po50.113a

The codification instructions state to replace the paragraph with the following: "A statement of plan net position that includes information about the plan assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the end of the plan's fiscal year (reporting date). The statement of plan net position should provide information about the fair value and composition of net assets." We believe the end of the last sentence should state "...composition of net position" instead of "...composition of net assets."

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O'Ryan of NASC at (859) 276-1147 or me at (410) 260-7160.

Sincerely,



Nancy K. Kopp
NASACT President