



919 East Main Street, Suite 1100  
Richmond, VA 23219  
Phone: (804) 249-4525  
vgfoa@valocalfinance.org  
www.vgfoa.org

November 14, 2011

Director of Research and Technical Activities – Project No. 3-23

Governmental Accounting Standards Board

401 Merritt 7

P.O. Box 5116

Norwalk, CT 06856-5116

**Subject:** Response to Exposure Draft: *Reporting Items Previously Recorded as Assets and Liabilities*

Dear Mr. Chairman and members of the Board,

The Virginia Government Finance Officers' Association (VGFOA) appreciates the opportunity to work with the Governmental Accounting Standards Board (GASB) in the due process of improving accounting and financial reporting standards for reporting items previously recorded as assets and liabilities.

The AICPA wrote the following in response to the GASB's Exposure Draft *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*:

"We continue to question the utility of reporting deferred inflows and outflows of resources since they are so difficult to define and differentiate from assets and liabilities. Further, it is our experience from discussing these elements with preparers and users of the financial statements that they also struggle in understanding the deferred inflows and outflows of resources elements."

The AICPA's Private Company Practice Section (PCPS) had similar concerns, stating:

"...the Board should revisit the conclusions reached about the classification of deferred inflows and outflows of resources in GASB Concepts Statement No. 4, *Elements of Financial Statements*. In retrospect, [we] believe it was a mistake to establish deferred inflows and outflows as separate financial statement elements apart from traditional liabilities and assets, respectively."

Though the explanation in the Exposure Draft on what exactly will be considered deferred inflow and outflow is helpful, the VGFOA agrees with the comments provided by the AICPA, and believes that

the establishment of these new financial statement elements will result in financial reports that are less useful and understandable by users. The creation of these new financial statement elements also runs contrary to the stated goals of several previous GASB pronouncements, including GASB Statement No. 34 and GASB Statement No. 54.

Should the GASB decide not to accept these concerns, we feel that the GASB should, at least consider completing its project on *The Recognition of Elements of Financial Statements and Measurement Focus* before providing details as specific as what is outlined in this Exposure Draft. This project addresses altering the elements and measurement focuses of the financial statements and includes the objective of *developing additional conceptual guidance related specifically to deferred inflows and outflows* (Chapter 1, paragraph 7), which will have significant impact on the guidance presented in this Exposure Draft. As this project just completed the preliminary views stage on September 30, 2011, the GASB should fully review feedback received through public comment that may cause reconsideration of the items that will be classified as deferred outflows and inflows and the items that will remain assets and liabilities.

The VGFOA continues to believe that the concept of deferred inflows and outflows will present confusion and pose difficulties in understanding their intended meaning in the Statement of Net Position. Additionally, these elements add a level of complexity to both the preparer and users of the financial statements as they attempt to distinguish and differentiate between what constitutes a deferred outflow or inflow versus an asset or liability based on the definitions prescribed in GASB Concept Statement No. 4. There are meanings in the words “deferred inflows” and “deferred outflows” that are too closely related to terms that are used to define other concepts in the body of authoritative literature. For example, the word “flow” represents movement (inflow, outflow, cash/resources flow, etc) and “in” or “out” can be understood to represent a direction, a debit or credit. Combined with the complex dimension of time, “deferred” seems to delay this “flow” or movement. The term *deferred* seems to be incongruent with the semantics of the words inflow and outflow. The term “deferred outflow” could be interpreted to convey a future obligation or out flow of resources when in fact deferred outflow is more similar to an asset account. Conversely, a “deferred inflow” can be interpreted to mean that the entity will receive the resources at a later point in time, which is not the case in a Service Concession Agreement, where the deferred inflow refers to the future amounts the entity will have to pay to another party as a result of receiving consideration or inflow in the current period.

In addition, the definitions of deferred inflows and outflows need to be further clarified, so that items that are assets and liabilities would not also meet the definition of deferred outflows and inflows. For example, this Exposure Draft identifies pre-payments as assets; however a prepayment could be a deferred outflow if, according to the definition of deferred outflows, the payment is made in the current period (*consumption of net assets*) to purchase a good or service for the next or future fiscal periods (*applicable to a future term*). What is generally known as a prepayment is still considered an asset, though it also meets the definition of a deferred outflow according to the definition as prescribed in GASB Concept Statement No. 4. Similarly, the Exposure Draft identifies payments received in advance related to a tax derived non-exchange transaction as continuing to be liabilities (unearned revenue), while this same liability meets the definition of a deferred inflow, in that resources are *acquired in the current period*, but are applicable to a future period. The GASB could establish a hierarchy for consideration of the definitions in making the determination between asset and deferred outflow or liability and deferred inflow with the criterion for asset and/or liability considered over the criteria for deferred outflow and/or inflow.

Completing the project on *The Recognition of Elements of Financial Statements and Measurement Focus* would allow the GASB to finalize the elements and financial focuses in ways that would further clarify the concepts in this Exposure Draft and make it easier to interpret and implement in the present and in future situations that may arise. Though the Exposure Draft outlines specific instances and discusses their treatment, it does not and cannot address every plausible situation that would cause a government to question how particular items should be classified on the Statement of Net Position. Without further clarifications of the definitions, the GASB would be required to continually make pronouncements or revisions to prior statements, leaving local governments and organizations to continually adapt to the changing standards of the GASB. This environment would not provide a sound and stable basis for accounting and financial reporting, which is a primary objective of the GASB. The overall framework needs to be finalized before providing guidance on specifics that are expected to be implemented in such a short time frame. Otherwise, these elements of the financial statements will add more complexity to preparing the statements and also to understanding the information provided in financial statements.

Lastly, though this Exposure Draft discusses the GASB's consideration of the confusion that will arise as a result of having an element of the financial statements called *Deferred Outflows* and *Deferred Inflows*, while at the same time having asset and/or liability accounts using the terminology, the Exposure Draft provides no guidance on what to call these items if not deferred. The GASB should provide some guidance so deferred revenues, charges, and other asset and liability accounts that were previously called *deferred* are presented consistently on financial statements of government entities.

The VGFOA appreciates the opportunity to comment on this Exposure Draft and to work with the GASB for improving financial recording and reporting for governmental entities. Thank you for your consideration.



Patricia A. Weiler  
VGFOA President