Letter of Comment No. 20 File Reference: 3-23E Date Received: 11/23/11

State Association of County Auditors



November 16, 2011

Governmental Accounting Standards Board Director of Research and Technical Activities 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

RE: Project No. 3-23 Reporting Items Previously Recognized as Assets and Liabilities Exposure Draft (ED)

The California State Association of County Auditors is pleased to submit its response to the *Reporting Items Previously Recognized as Assets and Liabilities* Exposure Draft, issued by the Governmental Accounting Standards Board (GASB) in August 2011. Our responses to the Exposure Draft are outlined below.

Within the summary of this ED, it states how these changes would improve financial reporting. While we agree there should be consistency in financial reporting, we believe the introduction of the concepts of "deferred inflows and outflows of resources" on the face of the statement of net assets/position will create more confusion to readers of our financial statements. Existing users of our financial statements (and many preparers) already struggle with the concept of "deferred assets and liabilities" and by adding these two line items to the face of that financial statement will <u>undoubtedly</u> create more confusion and struggle. We would also suggest illustrative disclosures would greatly assist users and preparers, specifically the summary of significant accounting policies.

Paragraph 31 of the ED states "the use of the term *deferred* should be limited to deferred outflows of resources and deferred inflows of resources". We would strongly recommend GASB add that "unearned" revenue must be used to report certain resources received in advance (see Appendix C to this ED for those examples).

Last, we would like GASB to consider adding the unrealized gains or losses on investments in accordance with GASB Statement No. 31 as a deferred outflow/inflow of resources. For many local governments, this is a point in time entry to reflect our investments at fair value and it might make sense to remove this reporting from the fund financial statements. We would also like GASB to consider adding more guidance on how certain assets and liabilities previously recognized will be reported in the fund financial statements.

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We appreciate the opportunity to respond to this ED and thank you in advance for your consideration of our responses. If you have any questions, please feel free to contact me at (831) 755-4040.

Respectfully,

Michael J. Miller, CPA

Auditor-Controller, County of Monterey

Victore & Mille

Chair, Accounting Standards and Procedures Committee California State Association of County Auditors