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February 17, 2012

Director of Research and Technical Activities  
Project No. 13-3  
Governmental Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean,

Thank you for the opportunity to comment on the Preliminary Views (PV), *Economic Condition Reporting: Financial Projections* document. The Wisconsin State Controller's Office is responsible for annually preparing the State of Wisconsin's Comprehensive Annual Financial Report (CAFR). We have reviewed and considered the PV from theoretical and preparer's perspectives and identified concerns with both. As a result, we do not agree with the proposed changes to governmental financial reporting as presented in the PV.

We believe that the inclusion of projections of future financial activity is inappropriate in an audited CAFR. Identifying and measuring results of past transactions or events is essential to accounting and financial reporting. To include financial projections in the CAFR incorporates a fundamentally different element into the process that bears the risk of diminishing the CAFR in its entirety. Although we believe GASB's goal is well intended, we also believe it misguided from a GAAP reporting perspective. The CAFR should include information only if it is subject to the same reasonable, though often complex, identification and measuring processes currently used for financial reporting.

As noted in GASB Concepts Statement 1, "financial reporting is only one source of information needed by users to make decisions about state and local governments. To make decisions, users need to combine the information provided by financial reporting with other pertinent information." It further states, "In many cases, users of financial reports also need to consult other sources to completely satisfy their information needs." It appears the proposal's motivation is on convenience of information rather than suitability to the CAFR. While we understand the desire for convenience, it should not outweigh other characteristics essential to upholding the reliability of the CAFR.

The audit opinion included in the CAFR lends substantial credibility to the information contained within regardless that the auditors do not provide an opinion on every component of the CAFR. While more sophisticated or professional users of the CAFR may understand the distinctions of the audit work performed as stated in the auditor's opinion, the more likely erroneous conclusion is that because portions of the CAFR are audited users will think all information contained within, including projections, is equally trustworthy.

The proposed requirements will add additional costs, administrative complexities, and time to financial reporting due to the enormous amount of information (historical trends, policies, known events, assumptions, etc.) to be determined for the State of Wisconsin. Staff with the applicable skills and abundant time will have to make projections for a multitude of programs, activities, and 80+ funds. Outside experts, such as actuaries, will

February 17, 2012

have to develop certain information for pension and OPEB obligations. Further, ongoing events through the date of the report will necessitate continuous changes to the information. For example, complex world events such as the European debt crisis that occurred in the fall of 2011 would presumably have to be included in the projections. Despite the cost and effort, the projections would be out of date before the CAFR was issued.

The PV describes GASB's research and states "users also stated that available information often is of varying degrees of detail and is difficult to comprehend for their use... Further, users stated that information needs to be presented in a single source, document, or location." Wisconsin's CAFR provides over 250 pages of information on an annual basis. The statistical section, when combined with the financial statements and note disclosures, provides information that is revealing and convenient to the users. For example, by combining ten years of revenues and functional expenses already included in the statistical section with other information from the CAFR, users are able to draw their own conclusions on future trends. While we understand the desire for convenient and easy-to-understand information, the broad and multifaceted nature of the state's operations, along with a multitude of ever-changing external factors, precludes that reality. Including projections will not make the CAFR any easier to understand; on the contrary, it will make it lengthier, more complex and difficult to understand.

Below are our specific responses to "Questions for Respondents":

1. We are concerned about including projections in the CAFR, a document meant to provide historic, measureable information. We are also concerned about the practicality of making projections for *all* state inflows, outflows, financial obligations, and debt service.
2. We disagree. We question whether it is possible to identify and document the current policy, historic trends, and events and conditions for all state funds, inflows, outflows, obligations, debt, etc. in a reasonable amount of time, if at all. We are also concerned about the effort involved and the complexity with adjusting projections, perhaps multiple times, while the financial statements are being prepared. The PV also precludes using certain types of information that could arguably be useful and important because then the projections would be "estimates" or "predictions". The PV requires preparers to balance on a rather narrow definitional line.
3. We do not believe projections, whether cash or accrual, should be included in the CAFR. Chapter 4 of the PV states that projections are "no more subjective than the estimates and assumptions currently required to be used in annual financial reports." We do not agree because estimates currently included in the financials are based on past events or transactions and generally have fewer factors to consider. Forward-looking projections, on the other hand, are subject to more factors out of the State's control, such as unexpected changes in economic conditions, federal mandates, or world events. These unpredictable factors can change very rapidly leading to unforeseen impacts on program needs and revenue streams. Other specific concerns include:
  - Debt service to maturity disclosures are currently provided under the requirements of GASB Statement No. 38. Projecting cash flows for debt service authorized but not issued would present a practicality issue because the distribution of the cash flows between governmental and business-type activities are not known until issuance. Further, the State holds variable rate debt whose projections would require forecasting that is not permitted in the PV's proposed process.
  - Compensated absences are a function of employee behavior which cannot always be meaningfully forecasted. The State recently experienced a significant reduction in its workforce due to a higher number of retirements than usual. It is unclear how a preparer of forward-looking information could take into account personnel reactions to unforeseen circumstances.

February 17, 2012

- The State would have to contract with an actuary to provide the information in relation to pensions and OPEBs significantly increasing the cost to preparers.
  - Existing standards already require significant disclosures of all future payments associated with capital and operating leases. Reporting the same thing in another part of the CAFR would be duplicative and serve no useful purpose.
4. We agree with the concept of a principles-based approach. However, building a comprehensive set of assumptions for the State as prescribed by the PV for each inflow/outflow, fund, program, obligation, etc. will be an onerous task, at best, and impossible at worst. Further, incorporating the assumptions into a mechanism capable of determining all the projections on an ever-changing basis as required to ensure all significant factors through the date of the financial statements is considered, will be very challenging, if not impossible.
  5. We do not agree.
  6. We do not agree. There appears to be an important inconsistency in the underlying theory of the PV and the proposed standard reporting requirements. Under the PV, “fiscal sustainability is a government’s ability and willingness to generate inflows of resources...” The Board’s view is that “all components of fiscal sustainability are essential for placing the basic financial statements in an operational or economic context and should be required and communicated as supplementary information.” However, as noted in paragraph 32 of Chapter 3, the Board “decided not to require a discussion of the ability and willingness of a governmental entity because it would be difficult to measure such attributes and use the information as a basis for projections.” If all components of fiscal sustainability, including willingness, are essential, how can fiscal sustainability be projected in a truthful manner without that component?
  7. We do not agree. Financial projections and related discussions should not be included in GAAP-based financial statements for any governmental entity.
  8. GASB should not implement the proposed reporting requirements. If GASB decides to issue a standard, the implementation date should be the same for all governments. GASB should also provide timely training, appropriate implementation guidance and multiple example illustrations appropriate for all types and sizes of governmental entities (including state governments) so all entities may implement on the same timeline.

We appreciate this opportunity to provide our comments to the GASB. Please contact Cindy Simon at (608) 266-3052 or George Kiehl at (608) 266-9446 if you need additional information.

Sincerely,



Stephen Censky, CPA  
State Controller