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

RE: Project 13-3, Preliminary Views, Economic Condition Reporting: Financial Projections

Dear Governmental Accounting Standards Board members and staff:

I am writing to comment on the above noted due process document. As a preparer and issuer of financial statements for a local government entity, we have great concerns about the direction the GASB is taking with this project and the potential negative impacts it could have on the perceived integrity of governmental financial reporting.

I do not think that anyone disputes the value and need for governments to analyze their future financial prospects and perform analysis and projections along the lines suggested in the Preliminary Views document. However, such analysis should be in the context of budgets and budgetary reporting – which do not constitute historical financial reporting. In short, and as stated on numerous occasions by GFOA and others, accounting and accountability are not interchangeable terms. A government demonstrates its accountability through financial reports prepared using accounting principles, budgetary documents, and other reports and documents.

Accounting and financial reporting are focused on objective, historical information concerning a government's financial position, results of operations, cash flows, and compliance with finance-related legal and contractual provisions. Projections of future year amounts do not present actual or historical information – such information is subjective, and much better suited for budget documents.

Further, as I am sure you will hear from many commenters, politics frequently play a role in the budgeting process and by extension will influence projections. There can be significant policy changes even in the midst of one budget cycle for a government which could create substantial deviations in previously forecasted amounts. A case in point is the budget situation in the state of Wisconsin over the last 12 months. No one could have predicted the sweeping changes that were imposed on local governments in Wisconsin, changes

which significantly impacted our five-year financial forecasting model and forced numerous policy and budgetary decisions for the City and many entities. The outcome was vastly different results in our projections and forecasts vs. what was previously assumed and considered in decision making by our elected officials. Had the City been required to include financial projections in its financial statements, readers would have been confused (at best) and critical (at worst) when comparing to the new reality that came from state policy changes. Perhaps more simply put, projected data invite erroneous conclusions because such data excludes the possibility of a government responding appropriately to changing circumstances. Historical data, on the other hand, clearly demonstrate whether a government has, in fact, been able to make appropriate adjustments for changing circumstances in the past.

We have the following additional concerns about the inclusion of projections in audited financial statements. Such information likely will cause confusion among users (including elected officials), citizens, and the media when comparing historical financial information with projections presented as RSI and/or other documents such as budgets. In fact, the only ones who may understand it are analysts and similar better-informed parties. Further, the proposal further blurs the lines regarding the accounting basis used for financial reporting. We already use two bases of accounting in the audited financial statements (modified and full accrual), and the statistical section is based on historical data prepared using modified/full accrual. Then certain of the proposed projections are to be prepared using the cash basis. How does this enhance comparability? Lastly, we foresee a great deal of difficulty by attesters relative to reviewing this information as RSI. This would add complexity and costs for preparers in an era when fiscal conditions continue to get tighter and tighter.

We believe that it is more appropriate for the GASB to focus its attention on historical trend data, already provided in the statistical section, rather than on projected data, consistent with the alternative view advanced by two of the GASB's seven members in the PV. We would also agree with the suggestion of the dissenting board members regarding the possibility of mandating that governments indicate where to obtain a copy of the subsequent year's budget, which, they point out "...is not a projection but instead an operational plan that has been subjected to a public process for adoption and to which the governmental entity is committed. Because there are references in CAFRs to where to obtain component unit stand-alone financial reports and pension plan stand-alone reports, reference also can be made on where to obtain the governmental entity's subsequent year budget document."

With respect to the specific questions raised by the Board in the PV document, we offer the following comments:

Question 1: although we agree that the first four components would be applicable information for a user to assess a government's financial condition and fiscal sustainability, we do not believe that such information belongs in audited financial statements, as indicated above, even if it is presented as required supplementary information. The fifth component clearly relates to policy, management, and operational decisions and is outside the scope of financial reporting

Question 2: we disagree, and question whether it would be possible for any size entity, whether a town with three financial staff people to a state with dozens or even hundreds of staff members, to identify and compile all of the factors necessary to comply with this guidance in a timely manner, thereby further reducing the timeliness of financial reporting.

Question 3: we do not believe projections should be included in the CAFR. Our comments relative to basis of accounting were stated in an earlier paragraph of this response.

Question 4: although we obviously are not in agreement with the proposal in general, should the Board move ahead, we would agree that a principles-based approach should be used.

Question 5: we do not agree with this proposal, largely for reasons stated previously relative to changing conditions that are better addressed in the context of budgetary reporting.

Question 6: we strongly disagree that financial projection information is essential to the basic financial statements and notes. Inclusion in the annual financial report, accompanied by an audit opinion, may result in some users assuming that the auditors have provided some assurance on the projections, regardless of disclaimers. The alternative view suggestion to refer financial statement users to budget documents is a better way to assist readers with obtaining information to assess a government's fiscal sustainability.

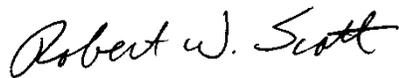
Question 7: we do not agree with this view for the reasons stated previously. Perhaps the Board could consider issuing optional guidance, similar to that regarding service efforts and accomplishments, for those governments who might wish to include financial projections along with their financial statements.

Question 8: if a standard were promulgated that established GAAP relative to financial projections, a phase-in period similar to GASB Statement No. 34 should be considered.

Thank you for the opportunity to comment on this issue.

Sincerely,

CITY OF BROOKFIELD



Robert W. Scott
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