

Letter of Comment No. 5 File Reference: 3-17E Date Received; 5/21/12

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Governmental Accounting Standards Board Director of Research and Technical Activities Project No. 3-17

Thank you for the opportunity to comment on Exposure Draft (PV), Governmental Combinations and Disposals of Government Operations 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 the Exposure Draft and considered the impact on financial reporting for the State. Although we agree with the general approach taken in the document, we still have concerns with the concept of deferred inflows/outflows of resources and the complexities that arise because of their existence. In addition, we believe some clarification is necessary. GASB did not ask for responses to specific questions, therefore, we have the following comments.

- Paragraph 32 of the ED refers to *acquisition value* as a market-based entry price. The draft states "acquisition value represents the price that would be paid for acquiring similar assets, having similar capacity, or discharging the liabilities assumed as of the acquisition date". It is not clear what that means in a government environment. There may be driving factors in a government environment that do not exist in the private section or with public companies.
- Paragraph 12b of the ED refers to "new government entity". GASB should clarify if the use of the term "government entity" relates only to governments as defined in GASB 14, paragraph 13 which states "A primary government…meets all of the following criteria:
 - a. It has a separately elected governing body.
 - b. It is legally separate.
 - c. It is fiscally independent of other state and local governments."

Paragraph 110 in the ED basis of conclusion discusses paragraph 12 but also refers to "new governmental entity". Should "new governmental entity" be replaced with "new government"? When referring to "governmental entity" does GASB mean a government? Or, does the term "governmental entity" mean an organization that is required to follow governmental GAAP? The use of those terms will be very important in determining whether the standard is applicable to transactions or not.

• Paragraph 36 discusses that deferred inflows and outflows should be measured at carrying values unless otherwise noted. The last sentence of that paragraph also states "any remaining deferred outflows of resources or deferred inflows of resources should be accounted for by the acquiring government in conformity with the provisions of paragraph 22 of Statement 53". Is this sentence necessary? It seems as though all circumstances have been accounted for in the first two sentences of the paragraph.

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Paragraph 96 indicates the Board considered excluding deferred inflows and deferred outflows from the items in government acquisitions under the notion that only assets and liabilities are being acquired in acquisitions. The Board further observed that some items that are classified as deferred outflows of resources and deferred inflows of resources are classified as assets and liabilities, respectively in the private and not-for-profit models. The Board ultimately concluded that not identifying deferred inflows and outflows would represent a difference that may impair comparability of similar acquisitions by a business-type activity and its private sector counterpart. We agree there would be differences. However, use of deferred inflows and outflows, which by GASB definition are not assets and liabilities, already impairs comparisons between governments and the private sector. If GASB believes comparability with the private and not-for-profit sector is important, GASB should report assets and liabilities in a manner consistent with those reporting models.

We continue to believe that reporting requirements for deferred inflows and outlows do not provide a benefit to users of the financial statements. The concepts are difficult to understand and add complexity to preparing the financial statements. For example, applying the deferred inflow/outflow concepts to ED paragraphs 94 to 98 and 103 to 107 was very challenging and, we believe, make the reporting more difficult than it needs to be to generate useful information for users of the statements. As a result, we believe GASB should revise Concept Statement No. 4 and eliminate the use of deferred inflows and outflows in government GAAP.

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

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