Letter of Comment No. 173 File Reference: 13-3PV Date Received: 7/24/12



P. O. Box 3069 Raleigh, NC 27602

July 20, 2012

Governmental Accounting Standards Board (GASB) 401 Merritt 7
P O Box 5116
Norwalk, CT 06856-5116

Gentlemen:

The NCGFOA, at their business meeting held on July 17, 2012, adopted a resolution on the Preliminary View on Economic Condition Reporting: Financial Projections. I have attached a copy of this resolution for your records.

If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Avril M. Pinder, CPA NCGFOA Board Secretary

AP/gth

Enclosure

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Resolution of North Carolina Government Finance Officers Association

WHEREAS, the Governmental Accounting Standards Board ("GASB") has issued a Preliminary View on Economic Condition: Financial Projections that proposes a requirement for local governments to include financial projections as part of the required supplementary information section of audited financial statements to aid financial statement readers in evaluating a local government's fiscal sustainability; and

WHEREAS, North Carolina government finance officers value transparency and accountability through reliable, consistent audited historical financial statements and meaningful supplemental information; and

WHEREAS, ongoing preparation and sharing of financial projections with stakeholders is a key component of prudent financial management that is included in budget and management processes; and

WHEREAS, disclosures through debt issuance and related continuing disclosure requirements currently provide significant fiscal sustainability information under regulatory authority; and

WHEREAS, in our collective experience, economic, political and environmental conditions that may materially affect projected financial outcomes can change rapidly, thereby creating a significant risk that published financial projections with audited financial statements could be misleading or altogether inaccurate by the time of publication in light of subsequent events; and

WHEREAS, including these projections with audited financial statements could create expectations for tax rates or expenditures that could result in legal challenges from government employees, vendors, bond holders and/or taxpayers; and

WHEREAS, those North Carolina local governments which participated in the GASB sponsored field test to prepare projections as directed in the Preliminary View found that using the GASB definition of "known" events resulted in financial projections that were not reasonable statements of expected future performance; and

WHEREAS, projections prepared as directed in the Preliminary View using the GASB definition of "known" events could produce financial projections that would be violations of North Carolina state statutes that require balanced budgets for North Carolina local governments; and

WHEREAS, financial projections prepared as directed in the Preliminary View and highlighted by publication with audited financial statements would be politically inflammatory to the extent of inciting unnecessary political conflict at the local level; and

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WHEREAS, the credibility of local government financial professionals, local government management and the elected leaders would be questioned both privately and in the public media when projections prepared in accordance with the GASB Preliminary View that are contrary to our professional opinion and experience are published in audited historical financial statements; and

WHEREAS, additionally, financial projections published as part of financial statements which are included in bond offering documents or continuing disclosure reports will be subject to scrutiny under the antifraud provisions of federal securities laws; and

WHEREAS, under the antifraud provisions of federal securities law, the assumptions used in financial projections that are communicated to investors have to be reasonable, and the issuer must believe at the time of such communication that they are reasonable statements of expected future performance; and

WHEREAS, if the Preliminary View is implemented in the current form, whenever a local government prepares a bond offering document or continuing disclosure report that includes financial statements (which would be required to include financial projections), it would need to consider whether the assumptions underlying the projections remain reasonable as of the date the offering document or continuing disclosure report is released to the market; and

WITEREAS, in the likely case that the assumptions have become outdated, that fact must be disclosed, and the assumptions and projections might need to be updated, at considerable expense to the local government; and

WHEREAS, the additional time and expense of projection preparation, audit preparation, publication and extensive public education associated with the published projections that will be unreasonable and inconsistent with governments' expected future performance is an economic burden with negative value that is unaffordable for many North Carolina local governments;

THEREFORE, the North Carolina Government Finance Officers Association resolves to strongly oppose proposed GASB requirements to publish financial projections in annual audited financial statements as a viable method to evaluate fiscal sustainability.