Letter of Comment No. 88 File Reference: 13-3PV Date Received: 3/16/12



## Alexander County Finance Office

March 15, 2012

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

Dear Sir or Madam:

I am writing to comment on the Preliminary Views regarding Project No. 13-3, Economic Condition Reporting: Financial Projections.

Five-year projections of cash inflows and cash outflows do not belong in an audited financial statements document. Many users of financial statements do not understand the difference between audited financial data and Required Supplementary Information. The Cautionary Notice preceding the financial projections may not be enough to prevent readers from expecting actual results similar to the financial projections. The readers may mistakenly believe the governmental unit's auditors have approved the five-year projections as a precise set of predictions.

When the projections differ from actual results (especially if the differences are large), the unit of government's credibility with citizens, banks, grantors, and credit rating agencies is undermined. These financial statement users will wonder if the unit manipulated data in order to exaggerate or minimize aspects of their projections or if the unit was just doing a poor job of preparing the projection information. What are the consequences to the unit's governing board, financial management personnel, and auditors when the five-year projections are wrong?

Preparation of the five-year projections of cash inflows and cash outflows will be a very time-consuming process affecting the timeliness of audited financial statements. In addition, the auditors' application of limited procedures to this Required Supplementary Information will lead to higher audit costs for governmental units.

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Developing the financial projections for cash inflows and cash outflows is more closely related to budgeting than accounting. Since governmental units already adopt budgets to carry out the governing board's operational and capital plans, a reference could be included in the financial statements about where to obtain the subsequent year's budget documents.

Audited historical financial results and financial projections for the future should not be together in one financial statement document. I hope the Governmental Accounting Standards Board does not move forward with this project to an Exposure Draft or a Statement of Governmental Accounting Standards. Thank you for your consideration of comments regarding this issue.

Sincerely,

Jennifer M. Herman, CPA

Alexander County Finance Director

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Taylorsville, North Carolina