



Finance Department

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March 16, 2012

To: Director of Research and Technical Activities

Project: 13-3

Preliminary Views of the GASB on major issues related to: Economic Condition Reporting: Financial Projections

Wake County agrees with GASB that strong fiscal planning is critical for governments in all economic environments. We routinely use financial modeling in areas such as capital and debt, general fund operations, solid waste, and specific major revenue sources. We maintain these models throughout our fiscal year, using them for decision making, Board of Commissioner and staff presentations, rating agency and debt issuance, as well as citizens groups and public hearings. Financial modeling forms a critical backbone to our financial planning. In fact, our CIP model is included in our adopted annual budget which can be found on our website at <http://www.wakegov.com>. Wake County is a fiscally strong AAA county with a long history of financial modeling. We consider the practice of sound financial modeling critical to our continued fiscal success.

However, we are concerned that the proposed methodology for preparing the financial projections will actually undermine our current practice of strong financial modeling and bring its credibility into question. In Chapter 4, paragraphs 2 – 7 discuss a methodology for projections that we are concerned would force Wake County to present two financial models. We would need one financial model for financial reporting with assumptions that meet “known” criteria and another model that we would use for rating agencies and others that reflect very realistic assumptions that we could not use in our financial statement model because they don’t meet the definition of “known.” If two modes were used we would need to spend a lot of time and effort explaining the differences between the two, causing much confusion and damaging our credibility.

Over the past several years, Wake County issued around \$300 million in limited obligation bonds for a new jail and justice center. These projects were part of our long-term CIP model and were discussed openly with the public for years as we prepared to issue bonds and begin construction. However, according to paragraph 23 of Chapter 3, these bonds would not have been included in the financial projections within our financial statements. Because limited obligation bonds are not voted on by citizens, they would not meet the definition of authorized in North Carolina and would not be “known.”

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Letter to Director of Research and Technical Activities

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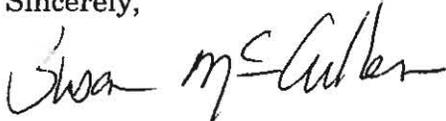
Dated: 3/16/2012

Further, we noted that, unlike the financial statements, the projections of total cash inflows and outflows should be presented on the cash flow basis of accounting. We are concerned about the huge amount of staff time needed to covert modified accrual records to the cash basis. In addition, we would have to explain cash basis versus modified accrual to our Board and to citizens. It would be extremely confusing to non-accountants for cash basis amounts and modified accrual basis amounts for the same fiscal year to be presented in the same report and not be the same. In addition, we are understandably concerned that this guidance would greatly impact our external audit fees. At a time when we are laying off staff and doing more with less, this potential fee increase will crowd already scarce resources.

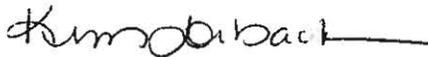
Wake County is inclined to support the alternative view in Chapter 6 of your document, agreeing with that viewpoint that financial projections and related narrative discussions should not be required as required supplementary information (RSI) in comprehensive annual financial reports (CAFR). We also question the cost-benefit of presenting such data in the CAFR and are concerned about being able to continue issuing our financial statements timely. We anticipate that presenting such data in our CAFR will increase the costs of our annual audits without getting citizens much in return. We would encourage you to approach this guidance without requiring this data to be presented in the CAFR or subjected to an audit, much the way the popular reporting guidance is treated.

We thank you for the considering our viewpoint and urge you to call or contact us with any questions

Sincerely,



Susan McCullen, CPA
Financial Services Director



Kim Lorbacher, CPA
Accounting and Reporting Manager