



FLORIDA GOVERNMENT FINANCE OFFICERS ASSOCIATION, INC.

Since 1937

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October 14, 2011

Director of Research and Technical Activities Project No. 34-E Governmental Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Via email: <u>director@gasb.org</u>

Dear Sir:

On behalf of the Florida Government Finance Officers Association (FGFOA), we are pleased to respond to the Government Accounting Standard Board's (GASB) Invitation to Comment on the exposure draft; *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27* (the "ED"). These comments were prepared based on a review by the FGFOA members, its Technical Resources Committee, and the Board of Directors.

We have reviewed the ED and are pleased to inform you that we generally concur with the concepts as presented in the ED. We concur with the concept that local governments which have defined benefit pension plans should present a pension liability in their financial statements prepared using the economic resources measurement focus, which reflects the difference in the present value of benefits earned to date by employees and the fair value of accumulated plan assets.

The current model which only records a liability or asset for the difference between annual actuarial funding recommendations compared to actual contributions made by the local government is not an accurate portrayal of the true liability of the government for pension benefits earned by and promised to employees.

We also are pleased that the Board rejected the Market Value of Liability measurement approach in favor of an approach that includes a reasonable expected rate of return in the calculations; this appears appropriate to us. We believe that this rate represents the most realistic discount rate over time, reflecting the long term nature of pension plans. We are also in agreement that the discount rate chosen by the Board is the long term rate of return/muni index. Finally, we are also pleased that the Board chose only one actuarial cost method and that it was the entry age method. This method enjoys the broadest support among actuaries and CPA's.

However, because of the importance of this ED and the magnitude of the change it will make in the financial statements of local governments, we offer the following comments for further consideration of the Board;

1. We noted that the implementation of the new standard is done by retroactive recording of the opening liability with a corresponding restatement of opening net assets. While we don't necessarily disagree with the balance sheet restatement approach, we could also support a "Cumulative Effect of Change in Accounting Principal", statement of activity approach rather than restatement. We also noted that the immediate inclusion

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Director of Research and Technical Activities Project No. 3-20 Governmental Accounting Standards Board Norwalk, CT

of the entire liability is significantly different from the approach used to implement the OPEB liability pursuant to GASB Statement No. 45. Under that statement, the opening liability is essentially amortized into current expense and brought into the liability over time. We wonder why the difference in approach with pensions and ask the Board to consider taking more of a GASB No. 45 approach to the transition amount for pensions, so that the net assets of the reporting entity are not immediately depleted or wiped out. Immediate recognition could also be a problem for enterprise funds where negative net position could violate bond covenants or trigger certain 'financial emergency" provisions of state statutes.

- 2. We noted that certain changes in the net pension liability are immediately recognized in full and that some are amortized over the expected service life of the employees through the use of deferred inflow and outflow accounts, which are presented outside of the categories of total assets or total liabilities. As accountants, we understand the theoretical justification for the amortization and deferred accounts; however we are concerned that this is getting overly complicated and will be difficult for elected officials and lay people to understand. If we are going to put the entire net pension liability on the balance sheet, why not just go ahead and expense the entire change rather than also measure the change in each individual component of the net pension liability that will have little meaning to financial statement users, yet will be costly to provide.
- 3. Because the pension expense recorded in the financial statements is driven at least partially by changes in the fair value of plan assets, unstable or irregular financial markets will cause major swings in pension expense from year to year. Generally these changes in asset values are temporary in nature and even out over time. Because these are long term assets with a long term focus to the local government, similar to the "Hold to Maturity" category defined by FASB that are not adjusted to market value, it doesn't seem logical to penalize or reward each reporting period for every up and down in the financial markets. To help manage these swings, we recommend that the Board consider allowing a averaging of asset values over a reasonable period of time, perhaps over 4-5 years. In addition a 20% corridor could also be utilized.
- 4. Because local governments that participate in multiemployer defined benefit plans such as the Florida Retirement System (FRS), participating employers will also be required to record their share of the net pension liability of the plan, a significant amount of allocations of assets and liabilities to plan participants will have to be done at the plan level. We think that the new Statement should provide some simple but objective guidelines for making these allocations to the individual plan members. Also, how will differences in fiscal year ends be handled, for example FRS has a June 30 year end but all Florida cities and counties have September 30 year ends? We recommend that the local government be allowed to accept the most recent net pension liability from the multiemployer plan that falls within their fiscal year end. If the most recent amount is not allowed to be used, a costly and time consuming roll-forward of that amount will need to be done which may not be an audited number.
- 5. It is clear from our review of the ED, that it will require more actuarial work, more financial statement preparer work and more auditor work, all of which will result in more costs to the local government. Please keep this cost benefit matrix in mind as you deliberate over individual points in the final evaluation process. Anywhere that you can reduce the cost of implementing and maintaining this standard will be greatly appreciated during these financially challenging times.

We would like to thank the GASB for their efforts in preparing ED and for the opportunity to respond. Feel free to contact me at (941) 954-4185 or Christopher.Lyons@Sarasotagov.com

Sincerely,

Christopher Lyons