As I said in that earlier section,

> *Because of the complexity of the entirety of GASB's standards I hesitate to offer specific language. But the effect must be to require adequate disclosure and explanation if payments (or reimbursements, or transfers) are made out of the Pension Fund for benefits other than pensions. These should be reported separate from pension benefits – and if such payments for other benefits are "material" the nature of the benefit should be identified – such as retiree healthcare. Further, when "Pension Fund Excess or Surplus Earnings" or any similar concept is used to fund benefits in any way other than pensions the calculations that show how such Excess/Surplus earnings were determined and how they were used should be included in the footnotes.*
>
> *Both the sponsoring governments and the Pension Fund should include this information in their statements.*

Citizens need to see if their government's Pension Fund is using such a practice and what the impact is on the financial health of the Pension Fund.

Another wrinkle – the County's Pension Fund reported its return on investment BEFORE so-called Excess Earnings were transferred out of the Pension Fund. So when the Actuary reported in the Actuarial Valuation for 2010 that the Fund's 14 year compound average return on market value was 5.2%, that percentage was calculated for returns before so-called Excess Earnings were taken out of the Fund.

The Pension Fund earned about $140 million net investment income during those years. About $35 million (25% of the net income) was diverted to pay retiree healthcare by use of the "Excess Earnings" method. Therefore the amount of net investment income that was retained in the Pension Fund was only 3.9%.

I submit the proper percentage return to report is 3.9% - not 5.2% because those earnings were not generated in order to provide pensions. They were generated in order to pay retiree healthcare. That's important for citizens to know.

END NOTES

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[i] SCO does not include unfunded retiree obligations as debt in its *Annual Counties* report. Such unfunded benefits are not listed in audited financial reports as debt (this analyst believes they should). However, they are disclosed in "Required Supplementary Information" in the financial statements. However, SCO doesn't include this Supplementary Information in its Annual Counties report (this analyst believes they should). Therefore they are not included in the tables above.

Debt related to most real estate purchases is also not included. Most California counties use a financing technique known as "Certificates of Participation" ("COPS") to finance real estate purchases. The county itself doesn't buy the property. It sets up a non-profit corporation (often titled a "Facilities Corporation") that it controls, and that non-profit buys the property. The Corporation finances the purchase by the sale of COPS to investors. It then leases the property to the county for enough to pay the principal and interest on the COPS. The amount reported in the SCO Annual Counties Report combines principal and interest, and is therefore expressed differently from other debt which only lists principal. Therefore COPS are excluded from this analysis.

The debt that is reported in the SCO report includes all Bonds, Loans, Notes, and many other forms of long term debt. It allows a good (but not complete) comparison of counties' debt.