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September 29, 2011

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
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RE: Project No. 34 –E

The Governmental Accounting and Auditing Committee is a senior technical committee of the California Society of Certified Public Accountants representing approximately 38,000 members. In response to the Governmental Accounting Standards Board's (GASB's) Exposure Drafts on pension accounting and financial reporting, we offer the following comments:

PROPOSED STATEMENTS OF THE GOVERNMENTAL AUDITING STANDARDS BOARD

- **Financial Reporting for Pension Plans (an amendment of GASB Statement No.25)**
- **Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)**

I. OVERALL COMMENTS

We agree with the Pension Proposals follow accounting principles, not funding of pension plans. Clearly, the costs and obligations/liabilities associated with the pension plans must be recorded as earned by the plans employees.

Further emphasis, the Net Pension Liability (NPL) should be displayed in the financial statements, not just disclosed in the notes (and required supplementary information).

We agree that Attribution should be based on one method, i.e. allocating present value on an entry age normal actuarial method and on a level % of payroll.

We agree with an Actuarial Valuation every two years, The information should be from (1) Actuarial Valuation every two years or (2) an update that rolls forward the actuarial valuation information conducted no more than 24 months prior to year-end.

See additional comments in Section II below.

II. RECOMMENDATIONS ON PROPOSALS

The following matters present concerns and suggestions to improve the Proposals and the related consistent financial reporting.

(1) Accounting and Financial Reporting

- Paragraph 15 (Accounting and Financial Reporting for Pensions)- This paragraph provides guidance regarding how to allocate the net pension liability to component units. However, we don't see that there is a direction in the ED as to how the net pension liability of a general purpose government should be allocated to proprietary funds that have salaries and that are charged a portion of the employer's pension cost. The Final Standard should be explicit on this point to ensure uniformity in application.
- The Final Standard should explicitly acknowledge the acceptability assets of estimating fair values of assets during the "roll-forward process." GASB may also want to elaborate to a greater degree in the pronouncement as to the "roll-forward process" and the acceptability of various estimation techniques inherent in that process. The standard seems to assume that all implementers of the standard will apply roll-forward methodologies in the same manner without direction from the pronouncement.
- We have particular concerns as to the Valuation of Real Estate Assets which seem to cause timing concerns for completion of the Actuarial Valuation. The Final Standard could recommend reasonable assumptions, including various estimation techniques, which would be disclosed.
- The "Net Pension Liability" (NPL) should be displayed in the financial statements to include current portion of NPL and portion over 1 year of NPL. This does not seem clear in the Proposals.
- The long-term Rate of Return on Investments should allow for flexibility of methods that comply with Actuarial Standards of Practice.

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(2) Notes to the Financial Statements

In addition to the Notes as required in the Proposals we recommend:

- The Notes should describe in details the changes in NPL
- The Notes should detail for Pension Expense, i.e. current accrual, portion of prior year service costs, interest on pension debt, adjustments including any deferrals, amortization, etc.

(3) Actuarial Services

Further to the Proposals Recommendations:

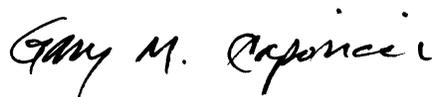
- Actuarially Calculated Employer Contribution (ACEC) is recommended by the Proposal to present a 10 year history only if it's calculated. We recommend that the calculation and 10 year history be required.
- The cost of actuarial services to employers may significantly increase with additional charges from (a) large retirement systems, such as CALPERS, (b) hiring independent actuary and (c) audit fee increase for actuarial assistance.
- We understand that PERS would prefer Actuarial Valuations on a 36 month cycle, rather than a 24 month cycle.

III. OTHER CONCERNS

- Other Post-Employment (OPEB) Plans. We strongly recommend that OPEB be implemented at the same time as the Pension Proposals.
- Other Pension Plans – these pension plans should include unfunded pension plans, “small pool” pension plans and terminated pension plans.

If there are questions about our position or this letter, please feel free to call Gary M. Caporicci at 949-422-1615 or 949-428-3454.

Very truly yours,



Gary M. Caporicci
Chair, Governmental Accounting and Auditing Committee
California Society of Certified Public Accountants