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October 14, 2011

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

RE: Comments on GASB's Exposure Draft on Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27

Dear Members of the GASB:

This correspondence is in response to the GASB's Exposure Draft on *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (ED). We appreciate the opportunity to express comments and concerns regarding the Board's decisions that will ultimately affect our financial statements.

As we stated in our response to the related Preliminary View, we live in a country of laws, some of which constrain local government financial decisions. Our comments are founded on our belief that financial statements should harmonize with financial laws. When financial statements do not reflect state financial laws or the financial decisions of the elected officials, they obscure the true activities of the government. This reduces transparency and does not serve the best interests of its citizens, policymakers, investors, and other users of financial statements.

Reporting the Unfunded Portion of the Pension Obligation on the Basic Financial Statements

While we agree that employers, including cost-sharing employers, are primarily responsible for their own pension obligations, the GASB's requirement that employers record a "point-in-time" estimate on the face of the financial statements that has enormous propensity for volatility is unnecessary given the long-term nature of governmental entities.

Requiring governments to record a liability of such magnitude will likely result in many governments reporting a negative net asset balance on their government-wide Statement of Net Assets, causing many employers to unnecessarily feel the need to reduce or eliminate pension benefits. Unfortunately, this likely reaction will be based on financial statements that are rendered worthless to decision makers due to a highly volatile and unreliable calculation that because of its enormous magnitude may obscure other issues

of real concern. A negative net asset balance could also give the misperception that an entity is insolvent or that its management has mismanaged funds.

De-linking of Expense Recognition and Funding Requirement

We believe that GASB's proposal to de-link pension expense and the Annual Required Contribution ("ARC") will create confusion among most financial statement users as to the "true cost" of the plan and will most likely cause undue panic regarding the health of employer pension plans. The ARC has served to establish a basis that creates equality of funding and reporting across all applicable governmental entities.

The current reporting methodology set forth by GASB utilizes a funding-based calculation for pension cost, which provides information directly relevant to the assessment of sustainability upon which important budgetary decisions are made. In contrast, the ED sets forth an obligation-focused reporting methodology that only serves to mask the essential information needed to make informed budgetary decisions with temporary fluctuations that have very little importance on long-term funding.

If such fluctuations are taken into consideration to determine the current resources needed to fund the long-term pension obligation, the biggest burden will be placed on those paying taxes during a period of downturn in the economy; whereas upsurges in the economy may unduly decrease the burden on taxpayers. This goes against the concept of interperiod equity where services are allocated equitably across current and future taxpayers.

We believe that the parameters set forth in GASB Statement No. 27 for both reporting and funding calculations provide for proper realization of interperiod equity. As stated in the GASB's White Paper, *Why Governmental Accounting and Financial Reporting Is - And Should Be - Different*, regarding the parameters allowable under GASB Statement No. 27, "[a]s applied by government employers and pension plans, these parameters make it possible to allocate expenses to periods in a way that charges each period a level percentage of payroll for normal cost. This method equitably spreads the burden of an ongoing benefit program among different generations of taxpayers."

GASB's solution to the de-linking issue as stated in paragraph 259 of the ED is to require additional disclosures related to the basis and assumptions for the calculation of any contribution requirements. We believe this will lead to much confusion over what is the true foundation for funding a healthy pension plan versus reporting the plan on the financial statements. With the separation of assumptions for the calculation of pension funding versus pension reporting, it will become even more difficult to rate or compare the adequacy of funding of each employer's pension plan, and adding a plethora of disclosures will most assuredly add to the confusion.

Plan Net Position – Timing of Measurement

The ED's requirement that the Plan's net position should be measured as of the end of each employer's reporting period presents significant difficulties in our ability to provide timely financial reports and meet established reporting deadlines. Currently, Travis

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County closes its general ledger three weeks following our September 30 year end. Our pension plan administrator has indicated to us that due to the timing of their receipt of valuation reports from asset custodians, we would not receive information regarding the County's net position until late November, at the earliest. By this time, we are already well on our way to having a completed CAFR, and adjusting entries at this late stage negatively impact our ability to meet mandatory filing deadlines.

In calculating the Plan's net position for each employer, we suggest that GASB modify language in the standard to allow for assets to be valued as of a date no earlier than three months prior to the employer's year end. This valuation could be adjusted for cash flow transactions occurring prior to year end. It is our belief that the resulting asset values would not differ materially from those obtained as of the employer's year end. This modification would allow employers to maintain year end close timelines without jeopardizing their ability to meet filing deadlines established by the Securities and Exchange Commission, if so required.

Conclusion

GASB states in paragraph 133 of the ED that "there will be a transition period during which users of employers' financial statements will need to adjust the way in which they interpret the amounts reported about defined benefit pensions." In our experience, users are still in the "transition period" of fully grasping the full accrual financial statements imposed by GASB Statement No. 34 and the differences that exist from modified accrual financial statements. Adding another variance of this magnitude will almost certainly further delay full comprehension.

In our view, the drastic changes proposed in the ED have costly implications that do not represent an improvement over existing standards. We believe the detrimental effects of this standard far outweigh any perceived benefits it may provide. While we prefer that you allow the existing standards to remain in place, we also recognize that GASB is determined to issue this standard, despite opposition from the Government Finance Officers Association and the Government Finance Officers Association of Texas, National Council on Teacher Retirement, various school districts and municipalities including the City of New York, members of the United States Congress, and many others. We encourage GASB to delay implementation of the proposed standard in order to study its repercussions in greater detail and to fully prepare and gather data for implementation.

If you have any questions regarding these comments, please feel free to contact me at 512-854-9125.

Sincerely,

A handwritten signature in cursive script that reads "Nicki Riley". The signature is written in black ink and is positioned above the printed name and title.

Nicki Riley, CPA
Chief Assistant County Auditor