

CCMA Activities Regarding GASB 68

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Introduction to CCMA

- Introduction
- California Committee on Municipal Accounting
 - California Society of Certified Public Accountants
 - League of California Cities
 - Whitepapers
 - California-specific accounting and financial reporting issues
 - <http://www.csmfo.org/documents/ccma-white-papers/>

GASB 68

- Government Finance Officers Association
2014 Conference
- AICPA SLGEP Pension Whitepapers
 - Governmental Employer Participation in Agent Multiple-Employer Plans: Issues Related to Information for Employer Reporting
 - Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting
 - Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements

AICPA GASB 68 Resource Link

- <http://www.aicpa.org/interestareas/governmentalauditquality/resources/gasbmatters/pages/gasbpensionsissues.aspx>

CCMA Meetings with CalPERS

- Discussion topics include:
 - New audit requirements
 - New employer responsibilities
 - Employers with alternative year-end dates
- CCMA review of draft CalPERS Accounting Valuation report contents
- CalPERS review of draft CCMA Whitepaper on GASB 68

CalPERS GASB 68 Timeline

- February – CalPERS Circular
 - What will be provided by CalPERS for GASB 68 implementation?
 - What fees will be charged for the information?
- May 14, 2015 – Tentative Date for Webinar
- May to July – CalPERS GASB 68 Accounting Valuations available

Employer Responsibilities: Cost-Sharing Plans

- Verify and recalculate amounts in the audited allocation schedules that are specific to that employer, including:
 - That the employer's contribution amount that was used in the allocation agrees with the employer's records
 - Recalculate the percentage used in these schedules for that employer
 - Recalculate the application of that percentage to the various amounts in the schedules

Employer Responsibilities: Agent Plans

- General principle – the local government (“employer”) is responsible for the amounts presented in its financial statements
- The AICPA white paper precisely defines the measures that the employer must take to fulfill those responsibilities
- Verify the accuracy of all amounts in the audit reports that pertain to that employer

Employer Responsibilities: Agent Plans

- Obtain on an annual basis the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate.
- In evaluating the census data file, the employer should compare the information to underlying payroll records and the prior year census data file.
- The employer should prepare a roll forward of the census data from one year to the next and review a reconciliation for any significant differences.

Employer Responsibilities: Agent Plans

- Communicate to the auditors your view regarding the reasonableness of the following assumptions that are reflected in your CalPERS actuarial valuation:
 - Long-term investment rate of return
 - Future salary increases
 - Future medical cost increases
 - Mortality rates
 - Inflation
- If you disagree with any of the assumptions, and the impacts are material to your financial statements, your agency will need to independently engage an actuarial firm to re-perform the actuarial valuation (in order to receive an unmodified opinion)

Employer Responsibilities: Agent Plans

- Agree the “employer contributions” amount that is presented in that employer’s column in the multi-columnar “Schedule of Changes in Fiduciary Net Position by Employer” that CalPERS will be providing

CCMA White Paper

- Currently in draft form
- Expected to be issued final in March-April 2015
- Provides practical, real-world, California-specific guidance regarding the implementation of GASB 68
- Communicates best practices regarding the implementation of GASB 68
- Employer responsibilities
- Employer audit firm responsibilities
- Doesn't replace professional judgment

White Paper - Introduction

- High-level summary
- Suggestions regarding messaging of impacts of GASB 68
- Overview of requirements of GASB 68
- Overview of contents of white paper

White Paper – Benefits Covered

- Identifies benefits subject to GASB 68:
 - The local government's primary pension benefit (CalPERS, County plan, single employer plan, etc.)
 - Certain enhanced or supplemental retirement benefits
 - Addresses funded and unfunded plans for which there is a trust document that provides:
 - Contributions and related earnings are **irrevocable**.
 - The accumulated assets are **dedicated solely for the payment of pension benefits** (and related administrative costs).
 - The accumulated assets are **legally protected from the creditors** of the employer, plan administrator, or plan members.

Supplemental Benefits

	Applicable GASB Standard	Liability Recognized	Amount Of Liability
Funded (with trust document that protects from employer's creditors, etc.)	GASB 68	Net Pension Liability	Full Liability
Unfunded (with trust document that protects from employer's creditors, etc.)	GASB 68	Net Pension Liability	Full Liability
Funded (without trust document that protects from employer's creditors, etc.)	GASB 27*	Net Pension Obligation	Unfunded ARC since 1997
Unfunded (without trust document that protects from employer's creditors, etc.)	GASB 27*	Net Pension Obligation	Unfunded ARC since 1997

* GASB is working on a proposed pronouncement that will require full liability recognition for these plans as well

White Paper – Accounting Guidance

- **Governmental fund** financial statements are not impacted by GASB 68
- Only affects:
 - Government-wide financial statements
 - Enterprise funds with material amounts of pension expense
 - Internal service funds with material amounts of pension expense
 - Private-purpose trust funds with material amounts of pension expense
 - Discretely-presented component units with material amounts of pension expense
- Liability, expense amounts, and deferred items may be allocated to the above reporting units based on the percentage of contributions paid from those reporting units

White Paper – Accounting Guidance

- Provides detailed discussion as to how to prepare all of the journal entries associated with GASB 68
- Provides example journal entries (including prior period adjustment)
- Provides example note and RSI
- Provides example actuarial report
- Provides a data set for an example city to illustrate where in the actuarial report each amount in the journal entries comes from

White Paper – Example Notes

- Two Example Notes:
 - Single Employer and Agent Multiple-Employer Plans
 - Cost-Sharing Multiple-Employer Plans
- Shows when and how to combine actuarial valuations in the notes to the financial statements when the local government receives more than one actuarial valuation from the plan's actuary

White Paper - Audit Firm Responsibilities

- For cost-sharing plans:
 - Obtain and read audit report of Plan auditor (look for problems/issues identified, etc.)
 - Consider competence and independence of Plan auditor
 - In allocation schedules for pool, trace to employer records the amounts that relate to that employer
 - Recalculate percentages for that employer

White Paper - Audit Firm Responsibilities

- For agent (and single employer) plans:
 - Census Data Testing for Actives:
 - Test **Plan Records**  **Employer Records**
 - Test **Employer Records**  **Plan Records**
 - Test **New Members** identified in plan records were added during the year

White Paper - Audit Firm Responsibilities

- For agent (and single employer) plans:
 - Using the census data that was provided to the actuary, reconcile key totals (number of members and covered compensation) to relevant amounts in the actuarial report
 - Compare summary census data for the valuation year to that of the previous year and evaluate for reasonableness:
 - A large increase or decrease in the number of members from the prior valuation period
 - A large increase or decrease in the amount of covered payroll from the prior valuation period
 - A significant change in the percentage of members to employees from the prior valuation period
 - Evaluate competence of plan's actuary and plan's audit firm

What Happens if There Are Delays

- All local governments in the same pension system may be forced to issue late financial statements
- In some cases, audit field work will be kept on schedule with financial statements prepared pending receipt of the necessary pension related amounts to be pushed through the financial statements

What Happens if There Are Delays

- What if there is a delay in the completion of all of the audit work required to be performed by the **plan's audit firm**:
 - Some local governments may wait and issue financial statements with unmodified opinions at a later date
 - Some local governments may issue their financial statements with a modified opinion prior to the plan auditors finishing their work
 - In some cases, this modified opinion may be in the form of a "scope limitation" (because the impacts of the GASB 68 related amounts are not "pervasive" – i.e., not representing a substantial proportion of the financial statements)
 - In some cases, the employer's audit firm might issue a "disclaimer"

GASB 68: MESSAGING TO STAKEHOLDERS

**Pensions can be a polarizing topic.
Are you preparing stakeholders?**

Flash Forward: December 2015



CAFR Presentation to City Council: What is your message?

Who will hear GASB 68 message?



Successful Outreach

- **Identify Stakeholders** - Who is impacted?
- **“No surprises”** - Provide advance notice
- **Education:** Bring players up to speed on terminology and impacts
- **Comfort zone:** Move players from defensive to informed position



What are key GASB 68 messages?

#1 – Financial Reporting Standard



- For Financial Statements
- No change to cash flow, current CalPERS contribution rates, or General fund budget

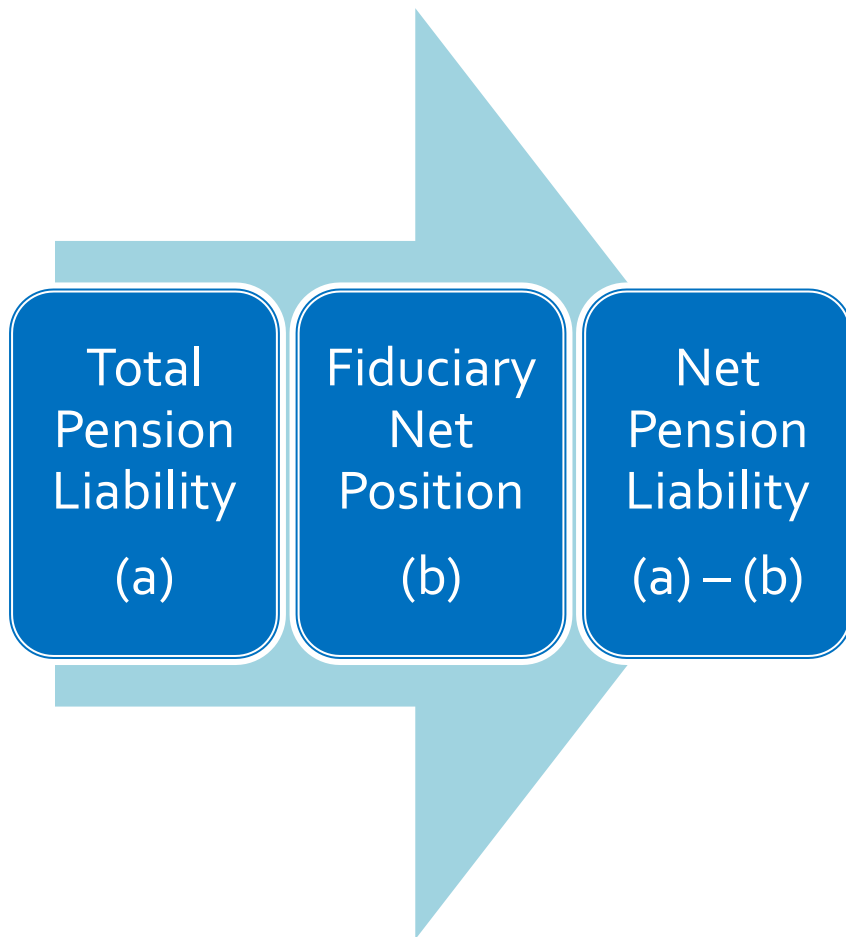
What are key GASB 68 messages?

#2 - New Measure of Pension Liability

- Moves away from CalPERS assumptions
- More conservative, likely larger liability
- Quicker recognition of gains and losses



"Net Pension Liability"

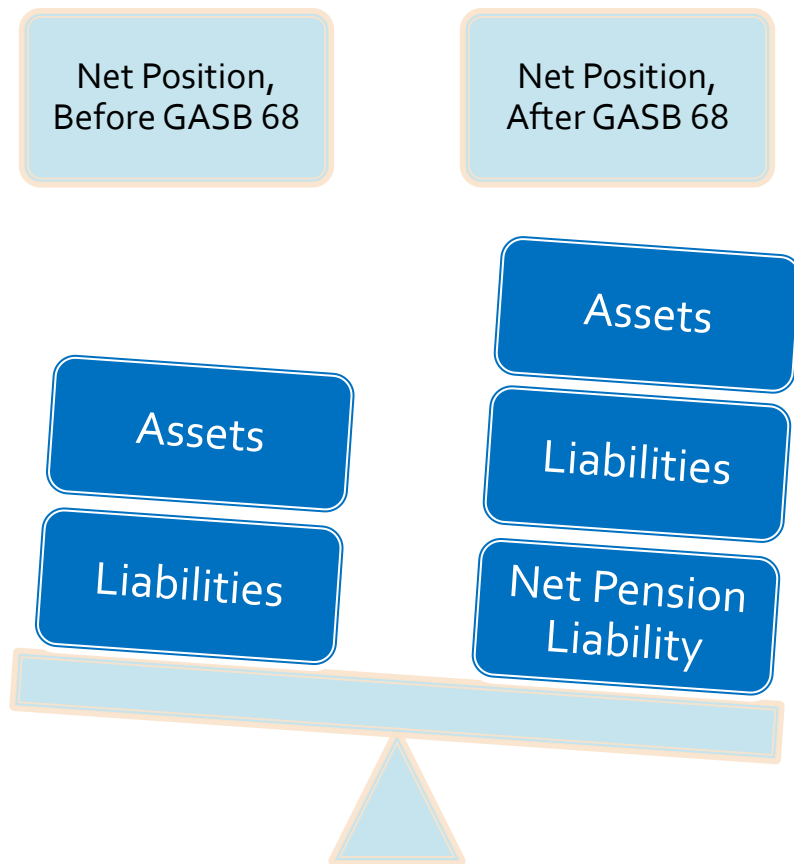


a) Total Pension Liability
*Present Value of Future
Payments for Past Service*

(b) Fiduciary Net Position
*Assets held by the Plan
for future benefits*

(c) Net Pension Liability
*Balance to be added to
Statement of Net Position*

What are key GASB 68 messages?



#3 - New Transparency on Statement of Net Position

- “Net Pension Liability”
- Net Position may become a deficit

What are key GASB 68 messages?

#4 – Reported One Year in Arrears

- 2014 data reported in 2015

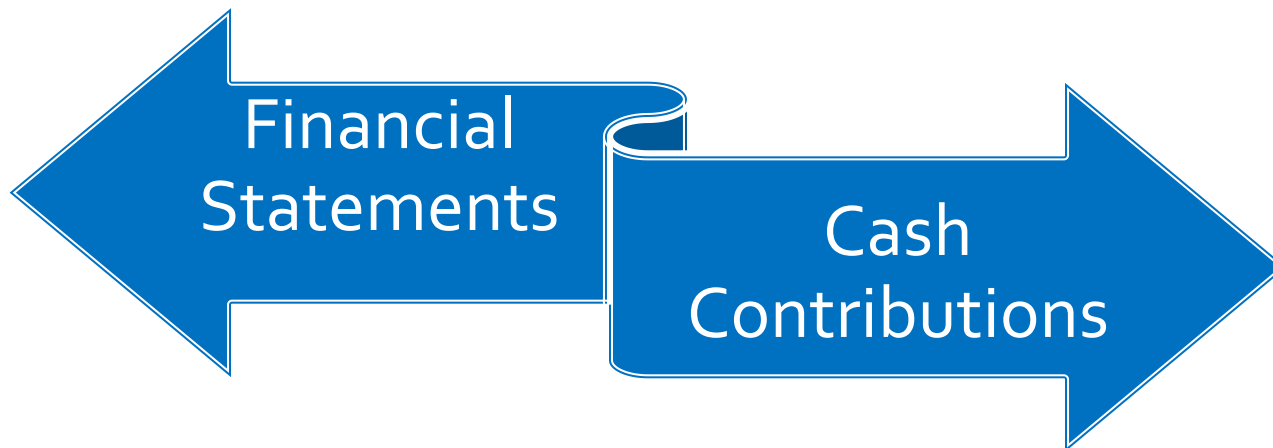
#5 - Timing Differences

- Reported as Deferred Outflows, Deferred Inflows

Statement of Net Position June 30, 2015		
	Governmental Activities	Business-Type Activities
ASSETS		
Cash	10,000,000	20,000,000
Net Receivables	5,000,000	7,000,000
Capital Assets	80,000,000	120,000,000
DEFERRED OUTFLOWS OF RESOURCES	9,000,000	1,000,000
LIABILITIES		
Payables	400,000	600,000
Long-term Liabilities	60,000,000	90,000,000
Net Pension Liability	50,000,000	10,000,000
DEFERRED INFLOWS OF RESOURCES	1,000,000	200,000
NET POSITION	(7,400,000)	47,200,000
<i>Accounts introduced or impacted by GASB 68</i>		

What are key GASB 68 messages?

#6 – Annual pension expense is no longer connected to Cash-basis required contribution to CalPERS



Message For Finance Staff...

- Read 7 page GASB summary
- Identify City pension plans
 - How many rate valuations received?
 - Rate pools within a plan?
- How administered?
 - Agent plans vs. Cost-sharing plans?
- Will liability be allocated to accrual funds?
- Who will prepare accounting entries?



Message For City Manager...

- Two Annual CalPERS Valuations:
 - “Funding” valuation for contribution rates
 - “Accounting” valuation for financial statements
- Logistics/Timing:
 - CalPERS data not available until late in fiscal year
 - Could delay audit and CAFR publication
- Cost: CalPERS anticipates charging for data
- Review outreach plan



Message to Program Directors...



- General Fund Departments
 - No cash flow/budget impact
- Utilities/Enterprise Departments
 - Brace for late/end of year charges to program expenditure accounts
 - Budget policy: Recommend posting GASB 68 year-end adjustments to a “non-department” division to exclude from budget performance measurement

Message For Human Resources...



- Obtain Data:
 - Request and pay for accounting valuations through on-line CalPERS System
- Validate:
 - Employee census

Message for Labor Groups...

- Tell them this is coming
- Provide GASB summary
- Provide CalPERS Accounting Valuations when available



Message For City Council...

- Discuss new pension measurement
- Compare to “Funding Valuation”
- Identify new “Net Position”
- Discuss City’s long-term strategy to fund pensions



Message for Rating Agencies...

- Do you have a scheduled ratings call with Ratings Agency?
- Be prepared to speak to GASB 68 impacts
- Provide accounting valuations
- Describe long-term funding plan



Message for Bond Disclosures...

- Utility Revenue Bonds – Debt Coverage
 - User revenue less operating costs/debt service
 - Will annual GASB 68 adjustment skew operating expenses, impact coverage ratio?
- Exclude non-cash GASB 68 pension expense from debt coverage calculation?
 - Discuss with Financial Advisor/Bond Counsel
 - Footnote coverage tables in Statistical Section

Bond Indenture Language

EXECUTION COPY

WASTEWATER REVENUE BOND INDENTURE
by and between the
CITY OF RICHMOND, CALIFORNIA
and
THE BANK OF NEW YORK TRUST COMPANY, N.A.
as Trustee

Dated as of October 1, 2006

"Debt Service Coverage Ratio"
means... the ratio determined by
dividing Net Revenues by Debt
Service for such period.

"Operating Expenses" ... calculated
on the **basis of generally accepted
accounting principles**, including
(among other things) the reasonable
expenses of management and repair
and other expenses necessary... and
reasonable amounts for
administration, overhead, insurance,
taxes (if any) and other similar costs,
but excluding (a) depreciation,
replacement and obsolescence
charges."

Message for Public...

- Post information to City web page
 - GASB links
 - Valuation reports
- Refer interested parties and media to web page
 - Consistency in information release



Wrap Up and Questions

- Have any Cities prepared a staff report for their City Councils?
- More GASB 68 on Friday
- Questions?

