GASB Strikes Again
What Should CBO's Be Doing?

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Introduction

- Changes in way "Other Postemployment Benefits" (OPEB) measured and reported under GASB 74/75
  - Liability measurement is based on actuarial valuations: Total OPEB Liability (TOL)
  - Plan assets based on accounting: Fiduciary Net Position (FNP)
  - Changes to Board communications
  - Changes in managing liabilities

Introduction

- Emphasis will be on transition from GASB 43/45 to GASB 74/75
  - When should Districts begin to line up actuarial, audit and internal resources?
  - Vast majority of CCD's fund through Trusts. How does existence of Trust affect timelines?
  - How will the resources required for compliance compare under GASB 74/75 vs. 43/45?
  - What special considerations are there for the transition from GASB 43/45 to 74/75?
  - How and when should Boards and other stakeholders be briefed on the implications of the change from GASB 43.45 to 74/75?

Where We Are Now

- Vast majority of CCD’s have been required to do a valuation every two years
- CCD’s were able to establish timing of OPEB valuations to support budget schedules and collective bargaining
- GASB 43/45 provides considerable flexibility related to many actuarial assumptions and methods
- GASB 43/45 valuations don’t directly provide liabilities, assets or expenses

Where Are We Going?

- GASB 74/75 dramatically reduces timing flexibility
- GASB 74/75 dramatically reduces flexibility in actuarial methods and assumptions
- GASB 74/75 valuations will tie directly to accounting entries, however, not yet clear
  - Who will provide Fiduciary net Position (FNP)?
  - Who will be responsible for detailed tracking of deferred inflows/outflows of resources?
- GASB 74/75 greatly expand RSI schedules and Note Disclosures. Who will track and prepare these?

Accounting Issues

Tina Henton, CPA is a partner with Vicenti, Lloyd and Stutzman, LLP

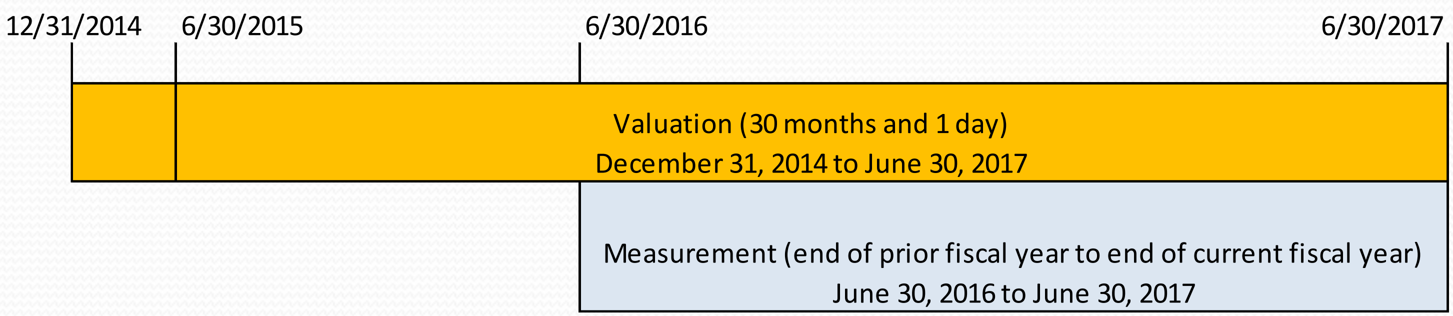
- Specializes in California Local Education Agencies
- Assists many agencies with meeting requirements of GASB 43/45 compliance and reporting
- Performed audits of several OPEB plans under GASB 43
- Frequent speaker at association meetings

New GASB OPEB Standards: Changes

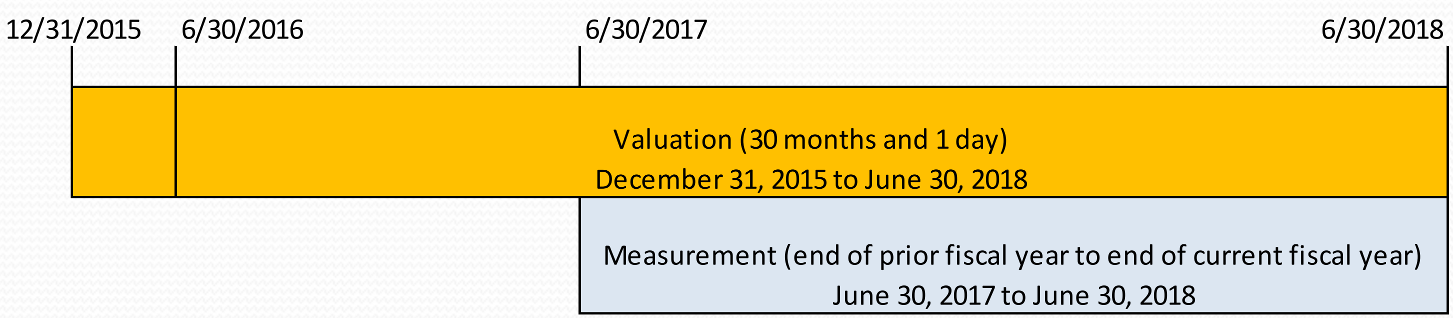
- Timing
  - All Districts will need to have actuarial valuations at least every two years (currently, agencies with fewer than 200 participants not in Trust are every 3 years)
  - Alternative Measurement Method (AMM) still available for plans with less than 100 participants, but still required every two years (at least one vendor appears to have discontinued doing AMM vals)
  - The total OPEB liability should be measured as of a Measurement Date not earlier than the end of the prior fiscal year and no later than the end of the current fiscal year.
  - Adjustments to actuarial valuation (roll forward) required if valuation date is other than the Measurement Date (no more than 30 months and 1 day earlier than the most recent fiscal year end)

New GASB OPEB Standards: Changes

- Timing for 6/30/18 implementation (no trust)
  - Beginning balance

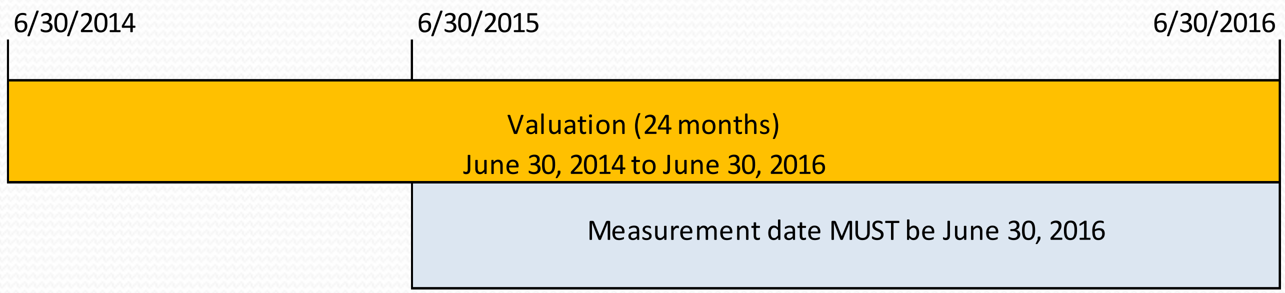


  - 6/30/18 reporting

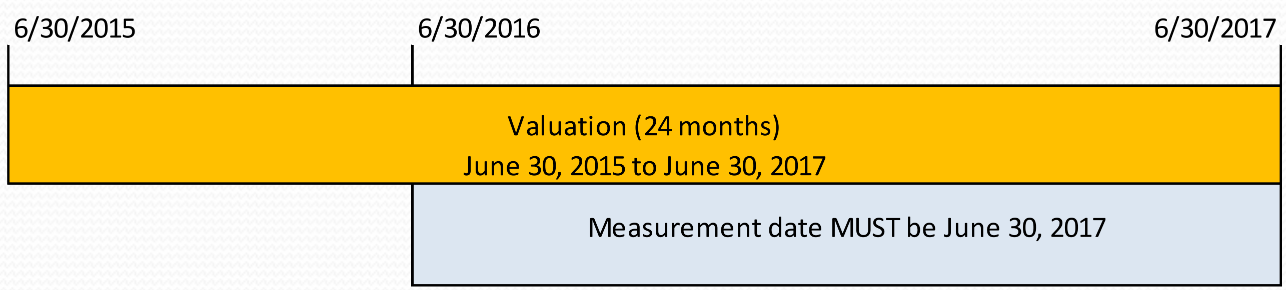


New GASB OPEB Standards: Changes

- Timing for GASB 74 Trust reporting
  - Beginning balance (GASB 74)



  - 6/30/17 reporting



New GASB OPEB Standards: Changes

- Standards allow for implementation of GASB 74 and 75 in different years
  - GASB 74 for trusts is 6/30/17
  - GASB 75 for employer is 6/30/18
- If a trust is shown in District financials, this will create confusion as the reader will see two different liabilities in the footnotes
- Highly recommend early implementation of GASB 75 when OPEB trust financials and disclosures are presented.

New GASB OPEB Standards: Changes

- Timing for 6/30/17 implementation (with trust)
  - Combines 74/75 requirements to meet standards with one set of data
  - Propose doing a valuation as of 6/30/17 for ending balance
    - Measurement date must be fiscal year end
  - Roll back to 6/30/16 for beginning balance
    - Data must be no older than 7/1/15
  - May also be able to utilize District's 6/30/16 valuation but, please contact your actuary

Changes to Accounting

- Requires recognition of a liability equal to the total OPEB liability on the full-accrual financial statements
  - Current standards allow recognition over a period not-to-exceed 30 years
- Requires that most changes in net OPEB liability be included in OPEB expense in the period of change.
  - Current period service cost
  - Interest on liability
  - Changes in benefit terms
  - Differences between expected and actual experience (amort)
  - Changes in assumptions or other inputs(amort)
  - Benefit payments (reduces)
  - Differences between projected and actual earnings on investments(amort)

Changes to Accounting

- Changes in net OPEB liability would be amortized over time
- Amortization period will be shorter than current standards
  - Expected remaining service lives of plan participants
  - Five years for differences resulting from investment earnings
  - Closed period
- Unamortized amounts will be reported as a deferred inflow or outflow of resources on the GASB 34/35 full-accrual financial statements

Changes to Accounting

- Deferred inflows of resources and deferred outflows of resources related to OPEB
  - Each year, separate "layers" of deferred balances will be created for each source of change
  - Deferred outflows balance should be reported separately from deferred inflows balance
  - Cannot net with the exception of differences arising from investment earnings
  - Logistically, this will be a challenge to track as new layers are added and others are fully amortized

New GASB OPEB Standards: Changes

- Dramatically Expanded Note Disclosures
  - Expanded disclosures about assumptions
  - Liability impact of 1% change (up AND down) in interest rate AND 1% change (up AND down) in trend rate.
  - Detail of adjustments of valuation to Measurement Date
  - Schedule of deferrals by type
  - Schedule of future recognition of deferred outflows and inflows (five years and thereafter)
- Expanded Required Supplementary Information (RSI) Schedule
  - Schedules of changes in the OPEB Liability and related ratios (10 years)

GASB 75: Partial Sample Note Disclosure

Changes in the Net OPEB Liability - District with Trust

		Increase(Decrease)		
		Total OPEB Liabilty (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances as of 6/30/17		$ 432,472	$ 418,254	$ 14,218
Changes for the year:				
	Service Cost	19,051		19,051
	Interest	30,663		30,663
	Differences between expected and actual experience	8,925		8,925
	Contributions-employer		22,424	(22,424)
	Net investment income		44,215	(44,215)
	Benefit payments	(7,899)	(7,899)	-
	Administrative expense		(148)	148
	Net changes	50,740	58,592	(7,852)
Balances as of 6/30/18		$ 483,212	$ 476,846	$ 6,366

Sample from GASB No. 75

Audit Considerations

- OPEB is high risk as there are multiple opportunities for errors
  - Hiring actuary without proper credentials or experience
  - Actuary not using most current health plan document or policy
  - Ambiguous language in these documents resulting in HR administering the policy different that what finance and actuary understand
  - Inappropriate or inconsistent assumptions
  - Inaccuracies in census data
- This will impact audit procedures

Possible Audit Approach

- Determine whether auditor will rely on actuary or also utilize their own
  - Auditor must evaluate actuary's competence, obtain an understanding of the work provided and evaluate the appropriateness of the work and report.
- Obtain plan documents used by the actuary and perform tests and interviews to ensure plan as documented is the plan administered
- Obtain census data provided to actuary and perform appropriate tests based on internal control assessment and determination of which data is most significant

Possible Audit Approach

- Review/discuss actuarial assumptions and methodology
- Review employer's processes and internal controls regarding tracking of retiree healthcare expenses separately from active healthcare expenses
- Review GAAP conversion journal entries
  - Prior period adjustment at implementation
  - All OPEB related activity properly reflected
  - Deferred inflows/outflows
  - Amortization

GASB 75 Key Takeaways

- Basic accounting and reporting will be similar to pensions
- Employers will need to be much more involved with selecting the actuary, approving assumptions, documenting the plan and providing the census data
- Info will need to be retained to show 10 year history
- Audit procedures are likely to be expanded

Effective Date and Transition

- Fiscal years beginning after June 15, 2017 (one year earlier if funding through qualifying trust)
  - For June 30 year end agencies, effective date is the 2017-18 fiscal year for employer (one year earlier for trust)
- Beginning deferred outflows of resources for contributions, if any, subsequent to the measurement date should be recognized
- All other deferred outflows/inflows of resources balances are "all or nothing" at implementation
- RSI schedules will be prospective if information not initially available

Actuarial Issues

- Geoffrey Kischuk, FSA, FCA, MAAA is President and Consulting Actuary for Total Compensation Systems, Inc.
  - Participated in development of GASB 43/45
  - Has performed GASB compliant valuations for almost 600 California public agencies
  - Consulted with various state agencies regarding GASB 43/45 compliance
  - Frequent speaker at association meetings

Actuarial Issues

- Substantial additional work for “full” valuation
- Involvement in “off year”
- Need to tie directly with audited financial statements
- Much less timing flexibility
- No more triennial valuations (i.e. more frequent valuations require more actuarial resources)
- Alternative Measurement Method (AMM) less usable
- Fewer actuaries (key retirements and other issues)

Substantial Additional Work

- 4 additional vals for + and – 1% liabilities
  - Interest
  - Trend
- 2 additional vals to quantify impact of
  - Assumption changes
  - Benefit changes
- Calculating and tracking deferred inflows/outflows
- May involve separate “funding valuation”

Interim Year Valuation

- GASB 74/75 effectively require valuations every year
- “Off-year” valuation can be based on roll-forward”
  - Use same demographics
  - Update liability using actuarial assumptions
  - Update FNP using actual assets
  - Determine all disclosure and accounting items

Tie to Audited Financials

- GASB 43/45 developed ARC
  - used to determine AOC, which in turn used to calculate NOO
  - ARC subject to adjustments to calculate AOC
  - Each val could stand on its own
- Under GASB 74/75, more directly tied
  - Unadjusted TOL, FNP, NOL, deferred inflows/outflows from val part of financials
  - Any differences between val and financial statements should be reflected in subsequent vals

Less timing flexibility

- Compression of required "linkage"
  - Under 43/45, Val Date must be 2 years before 1st day of 1st fiscal year (out of 2 or 3) val to be used
  - Under 74/75, Measurement date (MD) can't be more than 12 months before reporting date
- Effectively, vast majority of vals will be as of 6/30

Longer Process for FNP

- Must wait for 6/30 plan assets
- Fiduciary Net Position (FNP) must be determined
  - Trust (e.g. CalPERS will make audited FNP numbers available in November or December)
  - District
  - Auditor
  - Actuaries not likely to take on Accounting function
- Weighted returns must be determined (by Trust? By Actuary?)
- Investment Gains/Losses determined
- Deferred inflows/outflows determined and incorporated
- Draft report issued

Bottom Line

- Combination of more valuations, more work per valuation, less timing flexibility, longer timeline will mean much longer process
- Demographic data can be collected, prepared and liability run in advance of Valuation Date
- Liability calc can be reviewed by District (and auditor?) before FNP available
- May be several months after Valuation date before final draft report can be issued

Sample Timeline – Initial Valuation

- Issue proposal in early March
- Obtain demographic info in April/May
- Run liability in June/July. Issue preliminary draft.
- Upon approval, perform "Roll-back" valuation to obtain beginning numbers (July/August)
- Run plus and minus 1% valuations and other vals needed for Disclosures. Issue second draft (August/September)
- Obtain FNP and determine remaining numbers. Issue final draft. (September through January, depending on when FNP numbers available)
- Issue final valuation report (October through February)

Take-away Points

- Process not as regimented as pension side
- Key issues still being identified/decided
- Initial process will depend on many issues
  - Whether there's a trust and trust capabilities
  - Fiscal year implemented
  - Funding policy
  - Auditor preferences/requirements
  - District capabilities/preferences/requirements
  - Actuarial resources/capacity/workload

District Priorities

- Line up, inventory auditing, actuarial, trust, and internal resources
- Discuss with auditor issues related to valuation
  - Qualifications of actuary
  - Expectations regarding development of FNP
  - Expectations regarding tracking of deferred inflows/outflows
  - Expectations regarding compilation of Note Disclosures and RSI
- Get in actuarial "queue" early to increase odds of quicker turnaround (actuarial resources will be extremely tight as year progresses)
- Manage process – particularly FNP development (find out from Trust when plan assets and any FNP numbers available)

District Priorities

- Make sure budget includes increased actuarial/audit fees – especially in transition year
- Determine who at District responsible for different pieces (e.g. providing demographic data, providing plan info, providing FNP, managing process, etc.)
- Determine when to brief Board about changes (e.g. immediate recognition of entire unfunded liability)
- Determine whether changes will affect collective bargaining

Questions?

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