

November 2017 SACS Forum

California Department Of Education
School Fiscal Services Division

Agenda

- Announcements and Information
- Accounting Updates
- SACS Software Updates
- Questions

Announcements and Information



Since the last time we met..

- New Division Director for School Fiscal Services Division
- 2016–17 Unaudited Actuals – CDE Review
- Minutes are available on the CDE website for the May 2017 SACS Forum
- SACS2017ALL Software Release is available

Accounting Updates



Updates to Special Education IDEA Section 611 Resource Codes

- Effective 2018-19, CDE will consolidate Resources 3310, 3320, and 3400 into Resource 3310
 - Resource 3332 will be eliminated
- This change is a legislative issue and not a funding issue
- LEAs will have 3 years to spend down carryover balances

Every Student Succeeds Act (ESSA) Per Pupil Spending Update

- Where we last left off....
- U.S. Department of Education (ED) issued a “Dear Colleague Letter” on June 28, 2017, providing SEAs and LEAs an extension for reporting LEA and school-level per-pupil expenditures in their (ESSA) report cards until the 2018-19 school year.
- ED to issue non-regulatory guidance by the end of 2017.
 - Expect general guidance, providing flexibility to states for the methodology used.
- CDE will evaluate and proceed from there.
 - CDE guidance will stress consistency in the methodology used at the district level, for comparability between LEA schools.

Accounting and Financial Reporting for Other Postemployment Benefits (OPEB) GASB Statement 75

Background Information

- GASB 75 applies to employers that provide OPEB through plans (a) administered or (b) not administered through qualifying trusts or equivalent arrangements.
- GASB 75 provides accounting and financial reporting guidance for governments that provide OPEB to their employees and for governments that are legally required to finance OPEB for employees of other governments.
- GASB 75 relates only to how costs and liabilities are measured and reported in the financial statements, not how a government should fund its OPEB plan.
- GASB 75 supersedes GASB 45.
- Effective beginning 2017-18.

Definition of OPEB

- The definition of OPEB in GASB 75 stays the same as in GASB 45.
 1. Postemployment medical, dental, vision, hearing, and other health-related benefits – whether provided separately from or provided through a pension plan.
 2. Other forms of postemployment benefits – for example, death benefits, life insurance, disability, and long-term care – when provided separately from a pension plan.

Types of OPEB Plans

- Defined Contribution OPEB Plan
 - Insured Plan
 - Premiums are paid or other payments are made to an insurance company while employees are in active service.
 - Defined Benefit OPEB Plan
 - Benefits an employee will receive after separation from employment are defined by the benefit terms, which can be a:
 - Specified dollar amount,
 - Amount calculated based on one or more factors, such as age, years of service, and compensation, or
 - Type or level of coverage such as prescription drug coverage or percentage of health insurance premium.
- Focus of today's discussion is the defined benefit OPEB plan.

Types of Defined Benefit OPEB Plans

- Single-employer defined benefit OPEB plan
 - Single-employer OPEB plan
- Agent multiple-employer defined benefit OPEB plan
 - Agent employer OPEB plan
- Cost-sharing multiple-employer defined benefit OPEB plan
 - Cost-sharing OPEB plan

OPEB Accounting & Reporting under GASB 45 (1)

- Unfunded actuarial accrued liability (UAAL) for OPEB was only reported in the notes to the financial statements.
- If an employer participates in a cost-sharing OPEB plan that qualifies as a formal trust, no OPEB obligation was calculated for the individual employer as long as the employer paid the amount due to the plan annually.

OPEB Accounting & Reporting under GASB 45 (2)

- If an employer has a single-employer or agent employer OPEB plan, an actuary calculated an annual required contribution (ARC) using methods defined within GASB 45.
 - For each reporting period, a contribution deficiency or excess was calculated as the difference between the ARC and the employer's contributions.
 - Cumulative OPEB contributions that are underfunded or overfunded result in a net OPEB obligation or asset reported on the statement of net position.

Differences in Terminology

GASB 43/45 & GASB 74/75

GASB 43/45	GASB 74/75
Actuarial Accrued Liability (AAL)	Total OPEB Liability
Actuarial Value of Assets (AVA)	OPEB Fiduciary Net Position
Unfunded Actuarial Accrued Liability (UAAL)	Net OPEB Liability
Normal Cost	Service Cost
Annual Required Contribution (ARC) & UAAL Amortization	Accounting expense is not tied to a funding contribution
Net OPEB Obligation – cumulative difference between expense and contributions	Net OPEB Liability & Deferred Inflows/Outflows of Resources

GASB 75 Basics (1)

- Employer provides OPEB through plan administered through qualifying trust
 - Recognize Net OPEB Liability
 - Net OPEB Liability = Total OPEB Liability – OPEB Plan's Fiduciary Net Position
- Employer provides OPEB through plan not administered through qualifying trust
 - Recognize Total OPEB Liability

GASB 75 Basics (2)

- Criteria for a qualifying trust:
 1. Contributions from employers and nonemployer contributing entities to OPEB plan and earnings on those contributions are irrevocable
 2. OPEB plan assets are dedicated to providing OPEB to plan members in accordance with benefit terms
 3. OPEB plan assets are legally protected from creditors of employers, nonemployer contributing entities, plan administrator and plan members
- Administration through a qualifying trust versus non-qualifying trust drives how OPEB is measured and recognized on employer financial statements.

GASB 75 Basics (3)

- Plan contributions \neq OPEB Expense
- Significant additional notes and required supplementary information (RSI)
- Similar to GASB 68 pension accounting standards

Selection of Measurement Date (1)

- For plans that are administered through a qualifying trust:
 - As of a date no earlier than employer's prior fiscal year end.
 - Consistently apply from period to period.
 - Likely will coincide with plan's year end.
 - Example: for employer's fiscal year 2017-18, measurement date can be any date between 6/30/2017 and 6/30/2018. Assuming that the plan and employer have the same year ends (that is, June 30), then the employer can select either 6/30/2018 or 6/30/2017 as the measurement date.

Selection of Measurement Date (2)

- For plans that are not administered through a qualifying trust:
 - As of a date no earlier than employer's prior fiscal year end.
 - No plan year end – measurement date can be any day in fiscal year.
 - Consistently apply from period to period.
 - Example: for employer's fiscal year 2017-18, measurement date can be any date between 6/30/2017 and 6/30/2018.

Actuarial Valuation Date - Plan

- Total OPEB liability's measurement is determined through:
 - An actuarial valuation performed as of the plan year end, or
 - The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 24 months from the plan's year end.
 - Example: for the plan's year end on 6/30/2018, actuarial valuation dates can be any dates between 6/30/2016 and 6/30/2018.

Actuarial Valuation Date - Employer

- Total OPEB liability's measurement is determined through:
 - An actuarial valuation performed as of the measurement date, or
 - The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's year end.
 - Example: for employer's year end on 6/30/2018, actuarial valuation dates can be any dates between 12/31/2015 and 6/30/2018.

Frequency of Actuarial Valuation

- Actuarial valuation will be performed on an annual or biennial basis.
 - No longer a three year option.
- Regardless of timing or frequency of actuarial valuations, amounts must be rolled forward to plan's year end or measurement date of employer, as applicable.
- Recommendation – for employer's fiscal year end on 6/30/2018 (and employer selects 6/30/2017 as measurement date) and plan's year end on 6/30/2018, the actuarial valuation date should be 6/30/2016.
 - This meets all time requirements.

Measuring Total OPEB Liability

- Steps to measure total OPEB liability:
 1. Project future benefit payments.
 2. Discount projected future benefit payments to present value.
 3. Attribute present value of projected future benefit payments to past and future periods.
 - Entry age actuarial cost method is the only allowable actuarial cost method.
 - The portion of this actuarial present value allocated to a valuation year is called the *normal cost* (per GASB 75, note 43, normal cost is the equivalent of *service cost*).
 - The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the *Actuarial accrued liability* (per GASB 75, note 44, actuarial accrued liability is the equivalent of *total OPEB liability*).

Components of OPEB Expense (1)

- Current period service cost
- Employee contributions (active plan members only) *
- Interest on total OPEB liability
- Changes in benefit terms
- Plan administrative costs (if not trust, employer administrative costs)
- Projected earnings on plan investments *

* Not applicable if OPEB plan not administrated through a qualifying trust

Components of OPEB Expense (2)

- Recognition (amortization) of deferred outflows/inflows of resources:
 - Difference between expected and actual actuarial experience
 - Changes of actuarial assumptions
 - Net difference between projected and actual investment earnings *
 - Changes in proportion
 - Differences between actual contributions and proportionate share (if not trust, differences between actual OPEB payments and proportionate share of OPEB payments)

* Not applicable if OPEB plan not administered through a qualifying trust

Actuarially Determined Contribution

- “Annual Required Contribution” (ARC) is no longer specified.
- Actuarially determined contribution (ADC)
 - Must conform to actuarial standards but no other requirements specified.
 - Not required to be disclosed unless calculated.

Accounting in Governmental Funds

- OPEB expenditures should be recognized for the total of:
 - Amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits are due, and
 - Changes between beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.
- [Trust] Net OPEB liability = when benefit payments are due and payable and the OPEB plan's fiduciary net position is not sufficient for payment of those benefits.
- [Not trust] Total OPEB liability = when benefit payments are due and payable

Timing for Measuring OPEB in Governmental Funds

- Clarified in GASB 85, Omnibus 2017, effective 2017-18; paragraph 8.
- Financial statements prepared using the current financial resources measurement focus (modified accrual basis):
 - Liability to employees for defined benefit OPEB is measured **as of the end of the reporting period.**
 - All OPEB expenditures should be measured, including amounts payable to the plan and employer administrative costs associated with OPEB plans that are not administered through a trust.
- Economic resources measurement focus (full accrual basis):
 - As of the measurement date
 - Net/Total OPEB liability, OPEB expenses

Employer-paid member contributions for OPEB

- Treat as employee contributions
 - Reported as salaries and wages, or as fringe benefits
 - NOT OPEB expenditures

OPEB provided through private-sector plans

- Certain multiple-employer defined benefit OPEB plans
 - Like private-sector plans
- OPEB expenditures
 - Amount paid to the OPEB plan for the reporting period
 - Amount due and payable related to the period

Prefunding for OPEB – Second Trust (1)

- OPEB provided through a qualifying trust, Trust A.
 - Benefit payments are paid through Trust A.
- Employer establishes or participates in a second trust, Trust B, to accumulate resources, for example, to “stabilize” future employer contributions.
 - Assets accumulated in Trust B are irrevocable and are protected from creditors of the employer, and can be used only to make contributions to Trust A and can be moved to Trust A only upon instruction from the employer.
 - Trust B is not considered a qualifying trust – OPEB benefits are not paid through this trust.

Prefunding for OPEB – Second Trust (2)

- Balances and activities of Trust A represent the OPEB plan.
- Assets in Trust B cannot be counted in plan fiduciary net position in calculation of net pension liability.
- Assets in Trust B are assets of the employer and classified as restricted.
 - Reported using a local restricted resource, 9010, in the general fund.
- Applies regardless of plan type — single-employer, agent employer, cost-sharing plan.

Reference: GASB Implementation Guide 2017-2, questions 4.39 through 4.41

Implication for SACS

- Object 9664 title will be changed from “Net OPEB Obligation” to “Net/Total OPEB Liability”
- Fund forms
- Form DEBT
- Criteria and Standards
- Government-wide conversion entries and reports

Other Issues for Further Discussion

- Special Funding Situations
- Insured Plans
- Defined Contribution OPEB Plans

CDE's Evaluation of Requests for New SACS Codes (1)

Brief History

- SACS codes were developed over years, substantial input from field
- Some SACS codes added because of legal requirements
- SACS codes were aligned with federal coding

CDE's Evaluation of Requests for New SACS Codes (2)

Requests to add SACS goal codes

- Special Education, Adult Education, and Career Technical Education

Do we update SACS goal codes for program reporting?

- Very likely no. But, you can always ask!

Why not?

- Minimize SACS reporting errors
- Keep budgeting simple
- Programs change over time. Important that SACS is stable.

CDE's Evaluation of Requests for New SACS Codes

Locally defined goal codes

- Goals 1130 through 1999, for local definition of regular K–12 instruction
- Goals 4130 through 4399, for local definition of regular adult education

Disclaimer: CDE does not encourage the use of locally defined codes outside the range defined for such purpose. If an LEA elects to add its own detailed codes outside of the prescribed range, they should be aware that in the future some of those codes may be preempted by CDE for other uses.

- Appending codes
- Roll them up!

Proposed Criteria and Standards Modifications in SACS2018 Software

- COE only – Budget only – Criterion 2 – LCFF Revenues: Locks cells
- COE/District – Budget/Interims – Criterion 5/7 – Facilities Maintenance: Incorporate Prop 51 funding

See a recap of the February 7, 2017 SACS Forum for Prop 51 minimum contribution requirements on the SACS Forum Meeting Minutes, February 2017 Web page at <https://www.cde.ca.gov/fg/ac/ac/sacsminutes020717.asp>

- COE/District – Budget/Interims – Supplemental Information 7 – Unfunded Liabilities: GASB 75 implementation

Thank you!



Next meeting is scheduled for February 6, 2018