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**Local Government Update**



June 6, 2006  
 Staci Henshaw & Sherri Wyatt  
 Auditor of Public Accounts



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**Session Topics**

- Discuss results of QCRs of Virginia local government audits
- Review legislative changes impacting local governments
- Discuss impact of GASB pronouncements on Virginia local governments
- Provide overview of Commonwealth Data Point website

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**APA Quality Control Review**

- Sampling Documentation (AU 350)
  - Sampling Objective
  - Completeness and characteristics of the population
  - Methodology used to select the sample
  - Application of tests to each item in the sample
  - Project the results of tests to the populations

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**APA Quality Control Review**

- Workpaper Documentation
  - Document audit objectives, scope, and methodology (GAO para. 4.24)
  - Workpapers should contain sufficient information to allow an experienced auditor with no previous connection with the audit to understand the work supporting conclusion (GAO para. 4.22)

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**APA Quality Control Review Results**

- GASB 3, as updated by GASB 40
  - Documentation did not clearly indicate whether the auditor performed procedures to determine risk categories in accordance with standards (GASB Cod. 150.125)

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**APA Quality Control Review**

- Audit Specifications
  - Ensure are performing the tests of state compliance and accounting transactions, which are unique to Virginia localities, required by the audit specifications
  - Auditor is required to present the Annual Financial Report to the local governing body at a public session by Dec. 31 (SPECS 2-8 and §15.2-2511 of the Code of VA )

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**APA Quality Control Review**

- Audit Specifications - PPTRA
  - Auditor did not select a sample of overpayment and underpayment/error resolution processed by the Treasurer during the year under audit and examine supporting documentation to determine whether the Treasurer appropriately resolved the discrepancy (SPECS 3-11)

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**APA Quality Control Review**


- Audit Specifications – **Canteen Funds**
  - Questions from the CPA firms concerning requirements surrounding these funds
  - In all cases, if locality has canteen funds they should be audited
  - Canteen funds should only be used to the benefit of prisoner
  - If transfer inmates to regional facilities, should also transfer applicable canteen funds

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**Legislation Impacting Local Governments**



Personal Property Tax Relief  
 Communications Tax Reform



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**Personal Property Tax Relief**

- Major changes were made during 2004 Special Session I
- Established statewide reimbursement cap at \$950 million
- Changes are effective January 1, 2006
- Localities share will be based on actual payments for tax year 2004 compared to total payments to all localities for tax year 2004 (\*\*changed from 2005 during 2005 General Assembly Session)

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**Personal Property Tax Relief**

- In February 2006 APA certified actual payment to counties, cities, and towns for personal property tax relief for tax year 2004
- Certification is available on our website ([http://www.apa.virginia.gov/data/download/reports/audit\\_local/PPTRA\\_Alloc05.pdf](http://www.apa.virginia.gov/data/download/reports/audit_local/PPTRA_Alloc05.pdf))
- Department of Accounts is working on a payment schedule

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**Communications Tax Reform  
HB 568**

- *CHAPTER 6.2. - § 58.1-645. et seq and may be cited as the "Virginia Communications Sales and Use Tax Act."*
- Completely revises the taxation of communications services
- Applies a statewide communications sales and use tax to retail communication and video services on a competitively neutral basis


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**Communications Tax Reform  
HB 568**

- The communications sales and use tax rate will be 5% on the following:
  - Local Exchange
  - Paging
  - Inter-Exchange (Both interstate and intrastate)
  - Cable Television
  - Satellite Television
  - Wireless
  - Voice over the Internet (VoIP)


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**Communications Tax Reform  
HB 568**

- A \$0.75 "911 Tax" will be applied to each local exchange line (landline)
- The current \$0.75 "911 Fee" will continue to be applied to each wireless number


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**Communications Tax Reform  
HB 568**

- The state communications sales and use tax, and state 911 fees and taxes replace the following currently billed taxes and fees:
  - Local Consumer Utility Tax (LCUT)
  - Local Gross Receipts Tax (BPOL) - (Only the portion above 0.5% currently billed to customers, where applicable)
  - Local E-911
  - Virginia Relay Fee
  - Cable Franchise Fee


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**Communications Tax Reform  
HB 568**

- A statewide rights-of-way use fee will be applied to all cable TV service lines as is currently applied on all local exchange telephone lines.
- The rate of the fee will be the same as determined annually by the Virginia Department of Transportation in accordance with § 56-468.1 of the Virginia Code.


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**Communications Tax Reform  
HB 568**

- The redistribution of taxes and fees is intended to be revenue neutral to localities and the Wireless 911 Board and shall cover the current cost of the Virginia Relay Center.


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**Communications Tax Reform  
HB 568**

- The sales and use tax, 911 tax, and the cable rights-of-way fee assessed on consumers of video services from a single provider will be remitted to the Virginia Department of Taxation, which will administer the distribution of the Communications Sales and Use Tax Trust Fund within 30 days of receipt of the collections for a given month.
- The rights-of-way use fee assessed on consumers of both cable video services and voice services from a single provider will be remitted in accordance with subsection 1 of § 56-468.1. The 911 fees will be remitted directly to the Wireless 911 Board for administration.

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**Communications Tax Reform  
HB 568**

- The Auditor of Public Accounts shall determine the amount of revenues received by every county, city, and town for the fiscal year commencing July 1, 2005, and ending June 30, 2006, at rates adopted on or before January 1, 2006, for each of the following taxes and fees collected by the service providers:
  - gross receipts tax in excess of 0.5%,
  - local consumer utility tax,
  - video program excise tax,
  - cable franchise fee, and
  - 911 taxes and fees, where they are collected.
- Based on each locality's percentage of the total Fiscal Year 2006 receipts from these sources, the APA shall calculate each locality's percentage share of future distributions of the Telecommunications Sales and Use Tax by the Department of Taxation.

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**Communications Tax Reform  
HB 568**

- Local governments and service providers shall cooperate with the APA and provide information to him as requested.
- APA request for information (including sample Schedule of Communication Service Taxes and Fees and Examination Report) was sent out last week.
- Deadline for submission is October 1, 2006.
- Any locality that fails to furnish the information required to make this calculation in a timely manner shall not be entitled to participate in the distribution of such tax, and its percentage share shall be disregarded in calculating the distribution to other localities.

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**Communications Tax Reform  
HB 568**


- The APA or his agent shall not divulge any information acquired by him in the performances of his duties under this section that may identify specific service providers.
- The APA shall report his findings on a tax-by-tax basis to the chairmen of the House and Senate Finance Committees and the Department of Taxation no later than December 1, 2006.

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**Impact of GASB Pronouncements**



- Standards applicable for fiscal year 2006
- Focus on OPEB



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**GASB Standards Applicable for FY'06**

- GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries
- GASB Statement No. 44 – Economic Condition Reporting: The Statistical Section
- GASB Statement No. 46 – Net Assets Restricted by Enabling Legislation
- GASB Statement No. 47 – Accounting for Termination Benefits

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**Other Post Employment Benefits**

The Governmental Accounting Standards Board (GASB) issued statements to establish financial reporting standards for postemployment benefits other than pensions.

- Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*



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**GASB 43 & 45**

April 2, 2008

The Government Accounting Standards Board (GASB) issued Statement No. 43, American Reporting Requirements for Defined Pension Plans, and Statement No. 45, American Reporting Requirements for Defined Pension Plans, on March 27, 2007. These two statements are effective for fiscal years beginning on or after January 1, 2008. These two statements are effective for fiscal years beginning on or after January 1, 2008.

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**Other Post Employment Benefits**

Do you have an OPEB?

- Do employees have any benefits after separation from employment other than a pension benefit?
  - Medical
  - life insurance
  - long-term disability
  - long-term care benefits

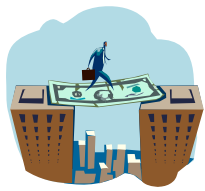
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**Other Post Employment Benefits**

What is the OPEB Cost and Net obligation?

- To determine OPEB Cost, you must determine who assumes the risk of loss in the benefit structure.
  - Risk of loss transferred to others
  - Risk of loss retained by the employer



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**Other Post Employment Benefits**

Risk of loss transferred to others

- Defined contribution plan (contractual) (GASB 45, ¶29 & 30)
  - OPEB cost = required defined contribution
  - No additional OPEB obligation
- Cost-sharing multiple-employer plan (GASB 45, ¶22 & 23)
  - Are employer contributions to the Plan irrevocable?
    - Yes - True cost sharing plan
    - No, refundable - treat like agent multiple employer plan
  - OPEB cost = contractually required contribution
  - No additional OPEB obligation
  - GASB 43 applicable to the entity that reports the Plan; N/A to participating governments that do not report the Plan
- Commercially insured defined benefit plan (GASB 45, ¶28)
  - Insurance Company accepts the actuarial risk
  - GASB 43 N/A to participating governments
  - OPEB cost = contractual premiums
  - No OPEB liability. Employer has no obligation for the payment of benefits.

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**Other Post Employment Benefits**

Risk of Loss Retained by Employer

- Single-employer defined benefit plan -
  - OPEB cost = annual required contribution (ARC) if calculated in accordance with GASB parameters.
- Agent multiple-employer defined benefit plan -
  - OPEB cost = ARC, if calculated in accordance with GASB parameters.
- ARC = normal cost for the year plus amortization amount for the total unfunded actuarial accrued liabilities of the plan, not to exceed 30 years.

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**Other Post Employment Benefits**

Do you have an implicit and/or explicit rate subsidy?

- Is the premium age-adjusted? (If the premium is age adjusted, the active and retired employees have a different premium.)
  - Yes -
    - Does the retiree pay 100% of the age adjusted premium?
    - Yes - There is no OPEB cost to the employer.
    - No - Employer's OPEB cost = explicit subsidy amount.
  - No, there is a blended premium.
    - Does the retiree pay 100% of the blended rate?
    - Yes - Employer has to account for an implicit rate subsidy
      - » OPEB liability = difference between blended premium and the retiree's age adjusted premium.
      - » OPEB contribution = difference between the blended premium and the active employee's age-adjusted premium (additional portion that active employee pays is a contribution reducing the liability, not a current year expense)
    - No - In addition to the implicit rate subsidy, the employer has an explicit subsidy for their portion of the premium.

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## Other Post Employment Benefits

Funding

- Advance Fund
- Pay-As-You-Go




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## Other Post Employment Benefits



Which advanced-funding method will you use?

- Trust Fund (IRC Section 115 trust)
  - Report Plan net assets as fiduciary funds or component units (as applicable with GASB 14)
  - Excluded from government-wide Statement of Net Assets
- Set aside “earmarked” funding (GASB 45, ¶ 143)
  - Reported in governmental or proprietary funds as contributions to Plan Net Assets.
  - Net assets are included in the government-wide Statement of Net Assets. (Plan assets are also employer assets.)
  - GASB 43 is not applicable for assets that an employer earmarks for OPEB. (GASB 43, ¶ 5)

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## Other Post Employment Benefits

Policy Issues

- Governments should review their policies on the post employment benefits they offer. Government officials should consider the following questions when planning for the implementation of these standards.
  - If the terms of the current OPEB substantive plan are not described in a formal policy, you should determine whether the government will continue or modify the plan in the future.
  - Do you want to continue to offer the OPEB plans considering the impact on government's financial reporting?
  - Do you want to continue to charge the retirees a blended rate for these benefits resulting in the active employees subsidizing the excess cost related to the retirees?
  - If you fund the OPEB on a pay-as-you-go basis, have you considered establishing a trust fund and paying the OPEB obligation in advance?

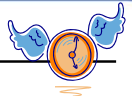


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## Other Post Employment Benefits



Actuarial Valuations

- Total membership 200 or more - actuarial valuation performed at least biennially
- Total membership less than 200 - actuarial valuation at least triennially

Effective Dates for Implementation

- Effective in three phases based on the phase when government was required to implement GASB 34. GASB 43 Phase one FY 2007. GASB 45 Phase one FY 2008.
- GASB 43 is effective one year prior to the effective date for GASB 45 (or largest participating employer for multiple-employer plan)

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## Data Point

- Senate Bill 964 – Senator Walter A. Stosch
- The Goal is a public website accumulating ten years of data, and providing periodic analysis of this information
- Caution! Data, both financial and otherwise, is **not** audited information and may require some review or additional research

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This screenshot displays the 'Commonwealth Data Point' section for 'Annual 9-11 Expenditure'. It features a table with columns for 'Agency', 'Fiscal Year', and 'Expenditure'. A line graph on the right shows the trend of expenditures from 2001 to 2004. The URL 'http://www.apa.virginia.gov' is visible at the bottom left, and 'Page 37' is at the bottom right.

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This screenshot displays the 'Local Government Expenditures' section for 'Current DRB-Open Path'. It shows a table with columns for 'Agency', 'Fiscal Year', and 'Expenditure'. The URL 'http://www.apa.virginia.gov' is visible at the bottom left, and 'Page 38' is at the bottom right.

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This screenshot displays the 'Local Government Expenditures' section for 'COUNTY - 2004'. It shows a detailed table with columns for 'Agency', 'Fiscal Year', and 'Expenditure'. The URL 'http://www.apa.virginia.gov' is visible at the bottom left, and 'Page 39' is at the bottom right.

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This screenshot displays the 'Local Government Expenditures' section for 'COUNTY - 2004 - King And Queen'. It shows a table with columns for 'Agency', 'Fiscal Year', and 'Expenditure'. The URL 'http://www.apa.virginia.gov' is visible at the bottom left, and 'Page 40' is at the bottom right.

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This screenshot displays the 'Commonwealth Data Point' section for 'Annual 9-11 Expenditure'. It features a table with columns for 'Agency', 'Fiscal Year', and 'Expenditure'. A line graph on the right shows the trend of expenditures from 2001 to 2004. The URL 'http://www.apa.virginia.gov' is visible at the bottom left, and 'Page 41' is at the bottom right.

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This screenshot displays the 'Expenditures by Agency and College' section. It shows a table with columns for 'Agency', 'College', 'Fiscal Year', and 'Expenditure'. The URL 'http://www.apa.virginia.gov' is visible at the bottom left, and 'Page 42' is at the bottom right.

