



Discussing the CAFR Award Sections with the Most Frequently Cited Deficiencies

By Michele Mark Levine

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One advantage GFOA has over other organizations that provide training and publications about financial reporting for U.S. state and local governments is the association's Certificate of Achievement for Excellence in Financial Reporting program. As a result of the CAFR Award program, GFOA staff (as well as the members of the Special Review Committee who volunteer to perform peer reviews) see literally thousands of state and local government comprehensive annual financial reports (CAFRs) a year, giving us a level of exposure and insight that is second to none. When GFOA staff are asked to address state associations and other organizations, one of the most frequently requested topics is common reporting deficiencies and how to avoid them — so we know that others recognize the value of insights gleaned from the program. In this article, we'll take a big-picture look at the kinds of issues we most frequently see in reviews, and then delve into detail about pension and other postemployment employment benefit (OPEB) disclosures required in the note disclosures section — an area where a number of deficiencies are being found — to help readers avoid these pitfalls.

WHAT NEEDS ATTENTION

Exhibit 1 is a graphically weighted representation of the CAFR sections that have the most commonly cited

departures from the program's criteria (selected generally accepted accounting principle, or GAAP, requirements as well as GFOA's recommendations) that reviewers have commented on for fiscal 2017 CAFRs to date. The note disclosures are most frequently called out, receiving approximately 48 percent of all comments. The presentation of the basic financial statements and the information in the statistical section of the CAFR are also frequently cited as needing improvement, but neither is a close second to note disclosures in terms of opportunities for improvement.

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Exhibit 2 breaks down the deficiencies within note disclosures by topic. The most frequent comments are on disclosures regarding pension benefits. Pensions are a complex topic — arguably one of the most complex in GAAP — and they are governed by relatively recent standards that governments are still adjusting to. This subject becomes

Exhibit I: CAFR Sections with the Most Frequently Cited Deficiencies

This chart shows the sections where the 50 most frequently cited deficiencies in CAFRs submitted to GFOA's Certificate of Achievement for Excellence in Financial Reporting (CAFR) Award Program are found.



Based on internal GFOA CAFR Award program data from reviews of fiscal 2017 CAFRs completed through approximately June 30, 2018. The data include the 50 most common deficiencies, with some judgmental adjustments for comments that may not technically be in the top 50 but address common and significant deficiencies.

all the more timely because many of the same issues are likely to arise with the in 2018 required implementation of GASB's new OPEB benefit reporting standards, which are very similar to the pension reporting standards.

FREQUENTLY MISSING OR ERRONEOUS

Please note that the following is *not* a comprehensive listing of pension disclosure requirements, only a discussion of those that are frequently missing or erroneous.

Who's paying the bill?

A disclosure requirement that pre-dates the newest pension guidance is the requirement to tell readers which governmental fund(s) typically have paid for (liquidated) long-term liabilities, which include pension and OPEB.¹

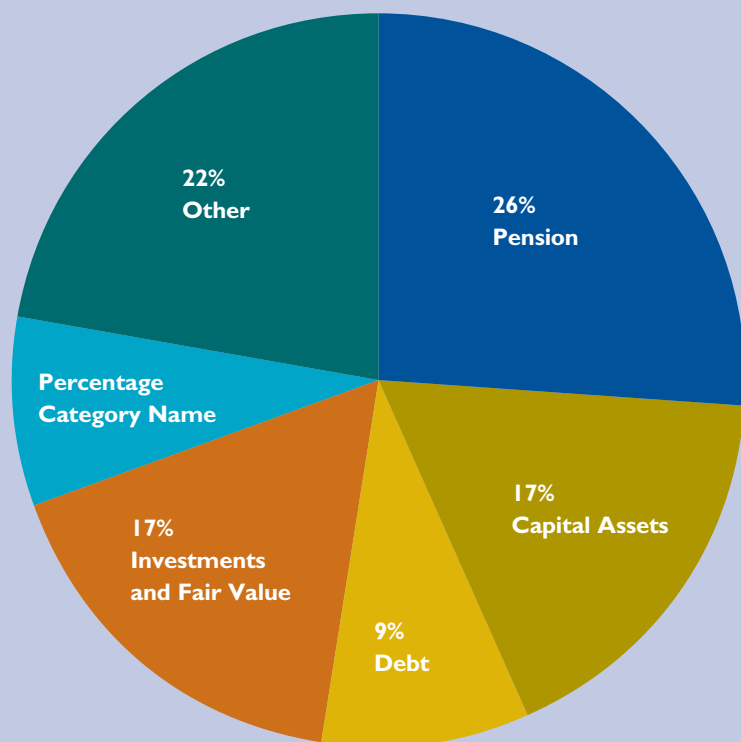
What's falling into the gap?

The measurement date used to calculate a pension or OPEB plan's (collective²) net pension or net OPEB liability will usually be earlier than the end of the fiscal year of the employer

government. If the employer makes contributions to the plan after the measurement date but before its year end, the contributed resources will no longer be assets of the government, but they will not have reduced the plan net liability. To avoid omitting these resources entirely, these contributions are reported by the employer as deferred outflows of resources and will reduce the plan's net liability in the subsequent fiscal period. These contributions are required to be disclosed (see more details below).³

Exhibit 2: Note Disclosures Most Frequently Found Deficient in CAFR Award Program Reviews

Based on the same internal GFOA data as Exhibit 1.



The forest or the trees?

Some required pension and OPEB disclosures are about the *employer*, and thus the amounts disclosed reflect *total* amounts attributable to the employer for *all* of the plans — of *any plan type* (single employer, agent multiple-employer, and cost-sharing multiple-employer, whether or not they are trusted⁴ plans) — through which the employer provides *defined benefit* post-employment benefits. These disclosures are (as applicable):

- The employer's pension (or OPEB, depending on the plan type that is the subject of the disclosure) liabilities.
- Net pension (OPEB) assets.

- Deferred outflows of resources related to pension (OPEB).
- Deferred inflows of resources related to pension (OPEB).
- Pension (OPEB) expense/expenditure for the period for these defined benefits.⁵

The disclosures are intended to tell readers the reason for the deferral, how the deferral will affect future reported amounts, and when those effects will be seen.

All other pension and OPEB disclosures are about the *plan(s)*, or provide details of the employer information by plan, and are therefore required to be reported *individually* for *each plan* through which the employer provides benefits.⁶ However, these detailed plan-by-plan disclosures should be presented in a way that minimizes redundancy, such as by using a table.⁷

What does the future hold?

Among the required disclosures that provide details of employer information *by plan* are those that set out the specifics of deferred inflows of resources and deferred outflows of resources, since those will definitely affect future years' reported pension amounts. The disclosures are intended to tell readers the *reason for* (sources of) the deferral, *how the deferral will affect* future reported amounts and *when those effects will be seen*.

I. Sources of deferral. For each plan, the note disclosures must include:

- Differences between expected (assumed) and actual actuarial experience in measuring the total pension (OPEB) liability.
- Changes in assumptions.
- Differences between expected (projected) and actual earnings on plan investments (netting gains and losses).
- For employers with special funding situations, changes in the employer's proportionate share of contributions and differences, if any, between that share and the employer's actual contributions.
- Employer contributions made between the measurement date of

the pension (OPEB) liability and the employer's year end, if any (see item 2, below).⁸

2. Effects of deferrals and their timing. Different deferrals are amortized by adjusting different financial statement amounts. Most deferrals, those listed in 1a-d, increase or decrease future years' *pension expenses*, but deferred outflows resulting from the timing difference between the pension plan's measurement date and the employer's year end, item 1e, will be recognized as a reduction in the *net pension liability*. For each plan the employer should provide tables showing the amounts and timing of the deferrals that will affect each of these amounts. Specifically,

- a. A table showing the net amount of the employer's deferred inflows and outflows that will increase or decrease in the employer's *pension expense* in each of the subsequent five years and in the aggregate thereafter.⁹

- b. A table showing the amount of the employer's deferred outflows that will reduce the employer's *net pension liability* (or, for employers with special funding situations, will reduce the *collective net pension liability*).

We are also seeing that early implementers of GASB's OPEB benefit reporting standards for employers have sometimes omitted information about whether the trusted OPEB plan(s) through which they provide benefits have separately issued GAAP financial statements that are available online. If so, the employer would also need to disclose how those statements can be obtained (a website address and/or a link in an electronic CAFR). If not, the employer is required to *include in its own note disclosures* the required OPEB plan financial statements as well as all of the plan's required disclosures, and must also include in its own required supplementary information (RSI) and the plan's RSI. This is true for each trusted OPEB plan through which the employer provides benefits.¹⁰

For a more comprehensive listing of pension, OPEB, and other required disclosures, take a look at the CAFR Award Program Checklists for general purpose governments and for pension and OPEB plans, available at gfoa.org.

CONCLUSIONS

GFOA's CAFR Award Program not only encourages and recognizes excellence in financial reporting, it provides specific recommendations for improvement to participants and allows GFOA to provide insights gleaned from

reviews to our members. Watch this space in the future for discussions of other common deficiencies, as well as changes we see over time. |

Notes

1. GASB Codification Section 2300.120.
2. For cost-sharing multiple-employer plans and special funding situations, proportionate allocation of these amounts will be necessary (GASB Codification Sections P20, paragraphs 152 and 185, and P50, paragraphs 160 and 199, among others).
3. GASB Codification Sections P20, paragraphs 145i and 182i, and P50, paragraphs 153i and 196i.
4. In this article the term "trusted" is used to describe pension and OPEB plans that hold assets in trusts or equivalent arrangements that meet the requirements in GASB Codification Sections P20.101 and P50.101, among others.
5. GASB Codification Sections P20, paragraphs 137 and 176, and P50, paragraphs 144 and 189. Also note that if any of these amounts are displayed separately on the face of the financial statements, they do not need to be disclosed.
6. GASB Codification Sections P20, paragraphs 138 and 177, and P50, paragraphs 145 and 190.
7. Ibid.
8. GASB Codification Sections P20, paragraphs 145h and 182h, and P50, paragraphs 153h and 196h.
9. GASB Codification Sections P20, paragraphs 145i and 182i, and P50, paragraphs 153i and 196i.
10. GASB Codification Section P50, paragraphs 151 and 195. Please also see the April 2018 issue of *GAAFR Review* for a discussion of common deficiencies seen in OPEB plan and employer reports prepared in accordance with GASB statements 74 and 75 (as amended), corresponding to GASB Codification Sections P50 through P54.

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