



# GOVERNMENT GUIDE

Spring 2016

## ABOUT US

*We have been providing professional services to the government accounting industry since our inception in 1957. Henry & Horne is a local firm with a long history and a strong team with many years of experience. Our experts are dedicated solely to the government industry, providing audits, single audits, yellow book audits, reviews and compilations and agreed-upon procedures to a wide variety of entities such as state and local governments, school districts, special districts and Indian tribes. We also provide entities with internal control reviews, accounting services, minimum accounting standards court audits, annual expenditure limitation reports and school compliance audits.*



## The Importance of Government's Continuing Disclosure Requirements By Marilyn Mays, CPA, CGMA

If you are an elected official or a government leader, do you understand your responsibilities regarding the required continuing disclosures related to your government's bond obligations? If you think those responsibilities belong only to individuals who work in the Finance Department, then you might want to look at what happened to the City of Harrisburg, Pennsylvania. It should be a warning to all governments to establish policies and practices related to required continuing disclosure responsibilities and ensure all government leaders are aware of and adhere to the policies.

Government bonds are securities traded in markets and are subject to the Securities Exchange Act of 1934. In 2013, the Securities and Exchange Commission (SEC) charged the City and its officials with securities fraud. The SEC stated that the City provided inaccurate and outdated information to investors regarding its financial difficulties. This misleading information was found in the City's budgets and financial statements. The SEC also made it clear that all communications representing a city's financial condition, including political speeches or public comments, are subject to scrutiny.

The Government Finance Officers Association (GFOA) recently updated its "Best Practices" to assist governments in creating policies and practices related to the requirements. Incorporating strong continuing disclosure policies and demonstrating compliance with those policies will benefit an issuer of government bonds by establishing credibility among investors, credit rating agencies and the public. The GFOA's "Best Practices" can be found on their website at <http://www.gfoa.org/understanding-your-continuing-disclosure-responsibilities-0>.

So, continuing disclosures are extremely important, but what are they? When governments issue bonds, they provide potential investors certain information that they, as well as their bond counsel, financial adviser and underwriter determine is important regarding the government's financial condition, economic indicators, and other financial statistics. This information is provided in the Official Statement. Since this information was determined to be important enough to inform a potential investor when issuing the bond, then you will be required to continue updating that information on an annual basis. These continuing disclosures are disseminated to investors, rating agencies, etc. by submitting it electronically at the Electronic Municipal Market Access (EMMA) portal within a predetermined timeframe.

One standard requirement of continuing disclosures is an audit performed on the government's financial statements. Many of the other required disclosures can be found in the Comprehensive Annual Financial Report (CAFR), if one is compiled; but, the government's representative responsible for the filing should carefully review and understand the specific requirements in the continuing disclosure agreement for EACH individual bond issued to ensure full compliance with the requirements. If the government has agreed to supply information that is outside the scope of the CAFR, then that information must be included as a supplement to the CAFR or audited financial statements when filing with EMMA. The deadline to provide the audit and other required disclosures is usually within six months of the end of the fiscal year.

Government officials should also be aware that certain events trigger notification to be placed on the EMMA website within 10 days (or within a reasonable period of time) of the event occurrence. Those events are specified in the Official Statement and include such occurrences as 1) debt payment delinquencies, 2) nonpayment defaults, 3) unscheduled draws on debt service reserves reflecting financial difficulties, 4) bond calls, 5) defeasances or 6) rating changes. This is not an all-inclusive list, so government officials should review their Official Statements.

Every elected official and leader of a government entity that issues bonds must understand the government's financial condition and be responsible to those investors who purchased their government's bonds. It is professionally, politically and personally imperative that a government establish the necessary policies and practices to ensure compliance with all written and verbal communication regarding the government's financial condition to protect themselves and their community from federal securities charges.

**If you have any questions Marilyn can be reached at (480) 839-4900 or [MarilynM@hhcpa.com](mailto:MarilynM@hhcpa.com).**



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## Classification on the New Pension Standards By Jeff Patterson, CPA, MBA

A year after implementation began for GASB Statement 68, the dust is beginning to settle and some issues have presented themselves during the implementation process. The Governmental Accounting Standards Board (GASB) is working to amend its pension guidance and resolve four specific issues that were a result of the new pension standard.

One of the issues faced by some governmental employers is that they participate in a cost-sharing plan where neither the plan itself, nor most participating employers, are governmental entities. Often in these cases, it is difficult for the governmental employer to obtain the information needed to comply with Statement 68. As a result, in December, GASB issued GASB Statement 78, Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans. GASB 78 clarifies the applicability of GASB 68 and provides information for the governmental employers impacted by the issue. Statement 78 applies to governmental employers with a cost-sharing multiple-employer defined benefit plan that is not a state or local governmental pension plan, is used to provide defined benefit pensions both to employees of government and non-government employers, and has no predominant state or local government employer.

GASB Statement 78 provides guidance on how governmental employers can comply with the requirements of Statement 68 in these situations. Employers in this situation should recognize pension expense in an amount equal to the employer contribution associated to the period, even if paid in a subsequent period. The pension liability would be limited to the amount of unpaid contributions, if any. Required supplementary information (RSI) is still required under GASB 78. Employers would need to disclose the amount of required contributions for each of the ten most recent fiscal years. GASB 78 takes effect no later than the end of the fiscal year ending December 31, 2016, but early implementation is encouraged.

Another issue that presented itself during implementation was what measure of payroll should be presented in the RSI. The RSI includes both the amount of payroll and the net pension liability as a percentage of that payroll. There has been some confusion of what amount of payroll should be included in the RSI schedules relating to the pension plans. GASB 68 simply states that the amount to be presented in the RSI is what they call “covered employee payroll”, or in other words, the amount paid to active employees that participate in the plan. However, for some plans, the total amount paid to an employee is not used in calculating the amount of required contributions. Amounts such as overtime are often excluded from the calculation and the total covered employee payroll may be difficult for some employers to obtain. In order to eliminate this problem, GASB proposes to require the use of “covered payroll” instead, which will only include the amount of the employee payroll subject to contribution requirements. If approved, the guidance would take effect for fiscal years beginning on or after July 1, 2016.

In addition to the proposal that would clarify the payroll amount required to disclose, GASB has also included a proposal that would clarify how contributions made by the employer on behalf of the employee should be addressed. In the proposal, GASB intends that such contributions would be reported as member contributions and included as part of salaries and wages of the period for which the contribution is assessed. This proposal would also be effective beginning July 1, 2016.

The final issue noted is related to whether it is necessary to comply with actuarial standards when selecting the assumptions used to estimate the total pension liability. Previous GASB Standards set limitations on the assumptions that could be used in the actuarial valuation for financial reporting purposes. Statement 68 provides no such limitation but relies on Actuarial Standards of Practice that are issued by the Actuarial Standards Board. GASB has proposed to clarify that deviating from the actuarial standards would not be in compliance with GASB standards. This clarification would also be effective for fiscal years beginning on or after July 1, 2016 with early implementation encouraged.

**If you have any questions Jeff can be reached at (480) 839-4900 or [JeffP@hhcpa.com](mailto:JeffP@hhcpa.com).**



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