

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
AUDIT OVERSIGHT COMMITTEE
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

MINUTES

June 12, 2014

A1. ROLL CALL

Chairman Ewin called the meeting to order at 9:00 a.m. A roll call sheet listing Audit Oversight Committee member attendance is attached.

A2. APPROVAL OF MINUTES

Mr. Cunningham moved for approval of the minutes of the April 10, 2014, Audit Oversight Committee meeting. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor, with Mr. Roberts absent.

B. COMMITTEE DISCUSSION ITEMS

1. Interim Audit

Erin Dunn, Controller, reported on the Interim Audit. She stated that during the month of April 2014, Pun & McGeady conducted their interim audit and tested MTS's internal controls. She noted that the interim exit memo was provided to all Committee members. Ms. Dunn also stated that there were some observations noted in Pun & McGeady's report. Chairman Ewin commented that he previously asked Ms. Dunn if there were any continued or repeat violations or issues that arose during the audit, and he was assured there were none. He also commented that the items of attention were reflected in the report.

Action Taken

Mr. Cunningham moved to receive a report on the interim audit work conducted by Pun & McGeady and the related observations. Mr. Mathis seconded the motion, and the vote was 5 to 0 in favor, with Mr. Roberts absent.

2. Report of GASB 67, GASB 68, and GASB 71

Gary Caporicci of Pun & McGeady referred to a handout entitled "San Diego Metropolitan Transit System Audit Oversight Committee Presentation" (attached). Mr. Caporicci reviewed updates to GASB Statements 67, 68 and 71. He also reviewed the requirements for the San Diego Transit Corporation (SDTC) Employee's Retirement Plan Audit. Paul Jablonski, Chief Executive Officer, asked when reports would be available from CalPERS regarding pension liability and whether that timing would coincide with the audit. Mr. Caporicci stated that the reports are currently going to be available on a request basis and he is hopeful that the reports will be available. Mr. Jablonski asked if CalPERS is obligated under law to provide the pension liability information. Mr. Caporicci stated that CalPERS is not obligated under law to provide that information. He also stated that if they do not receive that information from CalPERS in time for the audit, that there will be discussion of delaying the audit report. Mr. Caporicci also noted that this issue pertains to next year. Chairman Ewin asked Mr. Caporicci what the published timeline will be. Mr. Caporicci stated that there is no published timeline currently, but the advisory committee will

Audit Oversight Committee Meeting – MEETING MINUTES

June 12, 2014

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establish one. Larry Marinesi, Chief Financial Officer, noted that the Finance department is in constant communication with Pun & McGeady on all updates and new information. Mr. Caporicci reviewed the actuarial information for SDTC and CalPERS. He stated again that CalPERS will be providing GASB valuation reports on a request basis and that they will also charge employers for the report. Mr. Caporicci stated that MTS has not requested that information for the SDTC Pension Plan, but they may request at any time. He said that the estimated cost per plan for the report is approximately \$1,400. Lastly, Mr. Caporicci reported on the actual and pro forma illustration financial statements as of June 30, 2013.

Action Taken

Mr. Gloria moved to receive a report from Pun & McGeady regarding upcoming reporting and auditing changes. Mr. Mathis seconded the motion, and the vote was 6 to 0 in favor.

C. COMMITTEE MEMBER COMMUNICATIONS AND OTHER BUSINESS

Ms. Dunn stated that the SDTC Pension Plan audit is scheduled to start field work in August 2014. She also noted that the Audit Oversight Committee will meet again in October 2014.

D. PUBLIC COMMENTS

There were no public comments.

E. NEXT MEETING DATE

The next Audit Oversight Committee meeting will be scheduled in October 2014.

F. ADJOURNMENT

Chairman Ewin adjourned the meeting at 9:25 a.m.


Chairman

Attachments: Roll Call Sheet
Pun & McGeady handout "SDMTS Audit Oversight Committee Presentation"
Glossary

**AUDIT OVERSIGHT COMMITTEE
METROPOLITAN TRANSIT SYSTEM**

ROLL CALL

MEETING OF (DATE) June 12, 2014

CALL TO ORDER (TIME) 9:00 a.m.

RECESS N/A

RECONVENE _____

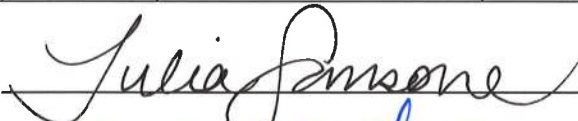
CLOSED SESSION N/A

RECONVENE _____

ADJOURN 9:25 a.m.

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
EWIN (Chair) <input checked="" type="checkbox"/>	9:00a.m.	9:25a.m.
GLORIA <input checked="" type="checkbox"/> (Emerald) <input type="checkbox"/>	9:00a.m.	9:25a.m.
MATHIS <input checked="" type="checkbox"/>	9:00a.m.	9:25a.m.
OVROM <input checked="" type="checkbox"/> (Bragg) <input type="checkbox"/>	9:00a.m.	9:25a.m.
ROBERTS <input checked="" type="checkbox"/> (Cox) <input type="checkbox"/>	9:12a.m.	9:25a.m.
CUNNINGHAM <input checked="" type="checkbox"/> (McClellan) <input type="checkbox"/>	9:00a.m.	9:25a.m.
Transportation Committee Rep Slot (Mathis)		

SIGNED BY THE CLERK OF THE BOARD:



CONFIRMED BY THE GENERAL COUNSEL:





**San Diego
Metropolitan Transit System
Audit Oversight Committee Presentation
June 12, 2014**

Presented by:
Kenneth H. Pun, CPA, CGMA
Gary M. Caporicci, CPA, CGFM, CFF

Pun & McGeady LLP

(1)



**Statement No. 67 of the Governmental Accounting
Standards Board**

**Financial Reporting for Pension Plans
(an amendment of GASB statement No. 25)**

Effective for fiscal years beginning after June 30, 2013

Pun & McGeady LLP

(2)

GASB Statement No. 67

- Defined benefit pension plans must present two financial statements
 - A statement of fiduciary net position
 - A statement of changes in fiduciary net position
- These financial statements will be prepared using the economic resources measurement focus and accrual basis of accounting

Patricia McGee, LLP

[3]

GASB Statement No. 67

Statement of fiduciary net position:

- Assets
- Deferred outflows of resources
- Liabilities
- Deferred inflows of resources
- Fiduciary net position

Patricia McGee, LLP

[4]

GASB Statement No. 67

Statement of changes in fiduciary net position:

- Additions: contributions from employers, non-employer contributing entities and plan members, and net investment income
- Deductions: benefit payments and administrative expenses
- Net increase (decrease) in fiduciary net position, (equals the difference between additions and deductions)

Part A, McGee's LLP

(5)

GASB Statement No. 67

Notes to Financial Statements

- Plan Description
- Plan Investments
- Components of Liabilities to Plan Members for Benefits
- Extensive Additional disclosures

Required Supplementary Information

- 10-year schedules

Part A, McGee's LLP

(6)

San Diego Transit Corporation Employee's Retirement Plan

Critical Dates

Fiscal Year-end Date:	<u>June 30, 2014</u>
Measurement Date:	<u>June 30, 2013</u> **
Actuarial Valuation Date:	<u>June 30, 2013</u>

**** With accounting roll-forward to June 30, 2014**

Port & McCready LLP

[7]

San Diego Transit Corporation Employee's Retirement Plan

Schedules to be Prepared by Actuary

- Net Pension Liability
- Total Deferred Outflows of Resources
- Total Deferred Inflows of Resources
- Total Pension Expense

Port & McCready LLP

[8]

San Diego Transit Corporation Employee's Retirement Plan

Auditor's Role

- Audit schedules prepared by the Actuary
- Audit Census Data of Plan
- Audit Financial Statements and related disclosures
- Issue Unmodified Auditor's Report

Pun & McGeady LLP

[9]



**Statement No. 68 of the Governmental Accounting
Standards Board, as amended by Statement No. 71**

**Accounting and Financial Reporting for Pensions Plan
(an amendment of GASB statement No. 27)**

Effective for fiscal years beginning after June 15, 2014

Pun & McGeady LLP

[10]

GASB Statement No. 68

- Focus on cost to taxpayers for providing pensions
- Accounting-based, not Funding-based
- Pension provided through trusts
- A liability should be recognized for the Net Pension Liability

Patricia McGee, LLP

[11]

GASB Statement No. 68

- Total Pension Liability should be determined as of a Measurement Date (probably June 30, 2014) and an accounting roll-forward to fiscal year-end of June 30, 2015
- Actuarial Valuation at least biennially

Patricia McGee, LLP

[12]

San Diego Metropolitan Transit System

- MTS must present the following financial statements:
 - Statement of Net Position
 - Statement of Revenues, Expenses and Change in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
 - Required Supplementary Information
- These financial statements will be prepared using the economic resources measurement focus and accrual basis of accounting

San Diego Metropolitan Transit System

- Pension Plans
 - San Diego Transit Corporation Employees' Retirement Plan
 - CalPERS
- Under GASB Statement No. 68, the Total Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Total Pension Expense for both Pension Plans will be displayed in the financial statements and related disclosures

San Diego Metropolitan Transit System Actuarial Information

- SDTC Actuary, Cheiron
 - Met on June 10, 2014
 - They will provide the actuarial information
- CalPERS
 - Updating systems to produce valuation reports and allow Employers to request valuation reports
 - CalPERS Board gave approval to proceed and charge employers
 - .. GASB valuations will be done on request
 - Established a Advisory Committee between CalPERS, CalCPA and League of California Cities

Pamela McCready, LLP

[15]

San Diego Metropolitan Transit System

Auditor's Role

- Audit schedules prepared by the SDTC Actuary and receive the audited data from CalPERS
- Audit Census Data of the Plans
- Audit Financial Statements and related disclosures
- Issue Unmodified Auditor's Report

Pamela McCready, LLP

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San Diego Metropolitan Transit System
Actual and Pro Forma Illustration Financial Statements
Statement of Net Position
June 30, 2013

	2013	
	Actual	Pro Forma Illustration
Assets		
Current Assets	\$ 160,016,000	\$ 160,016,000
Non-Current Assets	1,544,789,000	1,544,789,000
Net Pension Assets	27,826,000	-
Total assets	1,732,631,000	1,704,805,000
Deferred Outflows of Resources:		
Contributions Made	-	17,081,000
Liabilities		
Current Liabilities	62,946,000	62,946,000
Non-current Liabilities	176,376,000	176,376,000
Accrued Interest on Total Pension Liability	-	16,176,000
Net Pension Liability	-	98,159,000
Total liabilities	239,322,000	353,657,000
Net Position		
Net Investment in Capital Assets	1,296,217,000	1,296,217,000
Restricted	7,255,000	7,255,000
Unrestricted	189,837,000	64,758,000
Total Net Position	\$ 1,493,309,000	\$ 1,368,230,000

Page 5, Net Assets, LTR

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Appendix

GLOSSARY

This appendix contains definitions of certain terms *as they are used in Statement 68*; the terms may have different meanings in other contexts.

Active employees

Individuals employed at the end of the reporting or measurement period, as applicable.

Actual contributions

Cash contributions recognized as additions to a pension plan's fiduciary net position.

Actuarial present value of projected benefit payments

Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

Actuarial valuation

The determination, as of a point in time (the actuarial valuation date), of the service cost, total pension liability, and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

Actuarial valuation date

The date as of which an actuarial valuation is performed.

Actuarially determined contribution

A target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

Ad hoc cost-of-living adjustments (ad hoc COLAs)

Cost-of-living adjustments that require a decision to grant by the authority responsible for making such decisions.

Ad hoc postemployment benefit changes

Postemployment benefit changes that require a decision to grant by the authority responsible for making such decisions.

Agent employer

An employer whose employees are provided with pensions through an agent multiple-employer defined benefit pension plan.

Agent multiple-employer defined benefit pension plan (agent pension plan)

A multiple-employer defined benefit pension plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

Allocated insurance contract

A contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual employees. Also may be referred to as an annuity contract.

Automatic cost-of-living adjustments (automatic COLAs)

Cost-of-living adjustments that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

Automatic postemployment benefit changes

Postemployment benefit changes that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

Closed period

A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.

Collective deferred outflows of resources and deferred inflows of resources related to pensions

Deferred outflows of resources and deferred inflows of resources related to pensions arising from certain changes in the collective net pension liability.

Collective net pension liability

The net pension liability for benefits provided through (1) a cost-sharing pension plan or (2) a single-employer or agent pension plan in circumstances in which there is a special funding situation.

Collective pension expense

Pension expense arising from certain changes in the collective net pension liability.

Contributions

Additions to a pension plan's fiduciary net position for amounts from employers, nonemployer contributing entities (for example, state government contributions to a local government pension plan), or employees. Contributions can result from cash receipts by the pension plan or from recognition by the pension plan of a receivable from one of these sources.

Cost-of-living adjustments

Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.

Cost-sharing employer

An employer whose employees are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan.

Cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan)

A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

Covered-employee payroll

The payroll of employees that are provided with pensions through the pension plan.

Deferred retirement option program (DROP)

A program that permits an employee to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The employee continues to provide service to the employer and is paid for that service by the employer after the DROP entry date; however, the pensions that would have been paid to the employee (if the employee had retired and not entered the DROP) are credited to an individual employee account within the defined benefit pension plan until the end of the DROP period.

Defined benefit pension plans

Pension plans that are used to provide defined benefit pensions.

Defined benefit pensions

Pensions for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. (A pension that does not meet the criteria of a defined contribution pension is classified as a defined benefit pension for purposes of Statement 68.)

Defined contribution pension plans

Pension plans that are used to provide defined contribution pensions.

Defined contribution pensions

Pensions having terms that (1) provide an individual account for each employee; (2) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and (3) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.

Discount rate

The single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected (under the requirements of Statement 68) to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, calculated using the long-term expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Entry age actuarial cost method

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost*.² 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*.³ [This definition is from “Definitions from ASOPs [Actuarial Standards of Practice] and ACGs [Actuarial Compliance Guidelines] of the ASB [Actuarial Standards Board] (including those from current exposure drafts) February 2011.” Actuarial Standards Board, <http://www.actuarialstandardsboard.org/pdf/definitions.pdf>. Accessed on June 25, 2012. Footnotes not part of original definition.]

Inactive employees

Terminated individuals that have accumulated benefits but are not yet receiving them, and retirees or their beneficiaries currently receiving benefits.

Measurement period

The period between the prior and the current measurement dates.

Multiple-employer defined benefit pension plan

A defined benefit pension plan that is used to provide pensions to the employees of more than one employer.

Net pension liability

The liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit pension plan.

Nonemployer contributing entities

Entities that make contributions to a pension plan that is used to provide pensions to the employees of other entities. For purposes of Statement 68, employees are not considered nonemployer contributing entities.

Other postemployment benefits

All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits, regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits.⁴

Pension plans

Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.

Pensions

Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.⁵

²For purposes of application to the requirements of Statement 68, the term *normal cost* is the equivalent of *service cost*.

³For purposes of application to the requirements of Statement 68, the term *actuarial accrued liability* is the equivalent of *total pension liability*.

⁴The effects of a termination benefit on an employer's defined benefit obligations for other postemployment benefits should be accounted for and reported in conformity with the requirements for defined benefit other postemployment benefits.

⁵The effects of a termination benefit on an employer's or governmental nonemployer contributing entity's defined benefit obligations for pensions should be accounted for and reported in conformity with the requirements for defined benefit pensions.

Plan members

Individuals that are covered under the terms of a pension plan. Plan members generally include (1) employees in active service (active plan members) and (2) terminated employees who have accumulated benefits but are not yet receiving them and retirees or their beneficiaries currently receiving benefits (inactive plan members).

Postemployment

The period after employment.

Postemployment benefit changes

Adjustments to the pension of an inactive employee.

Postemployment healthcare benefits

Medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment.

Projected benefit payments

All benefits estimated to be payable through the pension plan to current active and inactive employees as a result of their past service and their expected future service.

Public employee retirement system

A special-purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans.

Real rate of return

The rate of return on an investment after adjustment to eliminate inflation.

Service costs

The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.

Single employer

An employer whose employees are provided with pensions through a single-employer defined benefit pension plan.

Single-employer defined benefit pension plan (single-employer pension plan)

A defined benefit pension plan that is used to provide pensions to employees of only one employer.

Special funding situations

Circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists:

1. The amount of contributions for which the nonemployer entity legally is responsible is *not* dependent upon one or more events or circumstances unrelated to the pensions.
2. The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan.

Termination benefits

Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.

Total pension liability

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of Statement 68.