

City of Rye, New York

Communication of Internal Control Matters Identified in the
Audit to Those Charged with Governance and Management

December 31, 2012

**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

The Honorable Mayor,
Members of the City Council and
City Manager
City of Rye, New York
1051 Boston Post Road
Rye, New York 10580

Auditors' Communication on Internal Control

In planning and performing our audit of the basic financial statements of the City of Rye, New York ("City") as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, as indicated in the attached Addendum A, we share for your consideration other observations about the internal control and operations.

This communication and addenda are intended solely for the information and use of management and the City Council and are not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these communications and comments in further detail at your convenience, or to assist you in implementing the recommendations.

O'Connor Davies, LLP

O'Connor Davies, LLP

Harrison, New York

May 7, 2013

City of Rye, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

**The Honorable Mayor,
Members of the City Council and
City Manager**

We have audited the financial statements of the City of Rye, New York ("City") as of and for the year ended December 31, 2012, and have issued our report thereon dated May 7, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated December 12, 2011, as amended by an addendum dated March 11, 2013. This letter provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the City are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with US GAAP, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with our audit, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

City of Rye, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as:

- Actuarial assumptions related to the Other Post Employment Benefit Obligations ("OPEB")
- Asset lives for depreciable capital assets
- Estimates of certain receivable balances and allowances for uncollectible amounts
- Estimates for certain operating and long-term liabilities

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to:

- Pension plan information
- Other post employment benefit obligations payable
- Outstanding bonded indebtedness
- Fund balances

The financial statement disclosures are consistent and clear.

City of Rye, New York

Communication of Matters Identified in the Audit to Those Charged with Governance

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction.

There are no such financial statement misstatements that remain uncorrected.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The adjusting journal entries following this communications letter summarize the material misstatements that were corrected by management.

Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations requested from management

We have requested certain written representations from management in a separate letter.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

We have provided our comments regarding deficiencies and other matters noted during our audit in the attached addenda.

City of Rye, New York

Communication of Matters Identified in the Audit to
Those Charged with Governance

Auditor independence

We affirm that O'Connor Davies, LLP is independent with respect to the City in accordance with professional standards.

This communication is intended solely for the information and use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Client: **545046.001 - City of Rye**
 Engagement: **545046 - City of Rye**
 Period Ending: **12/31/2012**
 Trial Balance: **7110 - General**
 Workpaper: **Adjusting Journal Entries Report - General**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 6				
to reclass advances to BLDG & Vehicle for financial statement purposes				
39166	DUE FROM BLDG & VEHICLE		715,897.00	
88914	RSV FOR ADVANCES		708,702.00	
39966	ADV DUE FROM B&V FUND			715,897.00
909	UNDESIGNATED FUND BALANCE			708,702.00
Total			<u><u>1,424,599.00</u></u>	<u><u>1,424,599.00</u></u>
Adjusting Journal Entries JE # 7				
client entry to adjust reserve for worker comp				
814	RESERVE FOR WORKERS COMP		210,000.00	
909	UNDESIGNATED FUND BALANCE			210,000.00
Total			<u><u>210,000.00</u></u>	<u><u>210,000.00</u></u>
Adjusting Journal Entries JE # 8				
to adjust encumbrances per analysis				
821	BUD FB RSV FOR ENCUMBRANCES	6000.01	15,000.00	
521	ENCUMBRANCES			15,000.00
Total			<u><u>15,000.00</u></u>	<u><u>15,000.00</u></u>
Adjusting Journal Entries JE # 9				
to adjust reserve for prepaid to agreed to schedule				
889	RESERVE FOR PREPAID EXP	01.480	182.00	
909	UNDESIGNATED FUND BALANCE			182.00
Total			<u><u>182.00</u></u>	<u><u>182.00</u></u>
Adjusting Journal Entries JE # 10				
To accrued for hurricane Sandy				
41002	DUE FROM STATE GOVERNMENT	01.410a	311,897.00	
4960	FEDERAL AID EMER DISASTER			311,897.00
Total			<u><u>311,897.00</u></u>	<u><u>311,897.00</u></u>

Client: 545046.001 - City of Rye
 Engagement: 545046 - City of Rye
 Period Ending: 12/31/2012
 Trial Balance: 7120.00 - Capital Fund
 Workpaper: 1300.00B - Capital Fund - AJE Published

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 2				
to adjust fed aid receivable to final cost reimbursement request -client provided entry				
4597	FEDERAL AID TRANSPRTATION		28,716.00	
41001	DUE FROM FEDERAL GOVT			28,716.00
Total			<u><u>28,716.00</u></u>	<u><u>28,716.00</u></u>
Adjusting Journal Entries JE # 3				
client entry to accrue Cty aid to match expenditures				
44001	due from Westchester Cty		471,080.00	
277050	Westchester County Aid			471,080.00
Total			<u><u>471,080.00</u></u>	<u><u>471,080.00</u></u>

Client: **545046.001 - City of Rye**
 Engagement: **545046 - City of Rye**
 Period Ending: **12/31/2012**
 Trial Balance: **Building and Vehicle Maintenance Fund**
 Workpaper: **1300.00C - BVM Fund - AJE Report Published**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 3		9215.00		
to amortize deferred bond costs				
54917	ISSUANCE COSTS AMORTIZATION		7,530.00	
66 485	DEFERRED CHRGS - ISSUE COST			7,530.00
Total			7,530.00	7,530.00
Adjusting Journal Entries JE # 4				
to amortize deferred charges on loss and premium of refunding				
66 62802	DEF CHGS - PREMIUM ON REFUNDIN		43,827.00	
66 62801	DEF CHGS - LOSS ON REFUNDING			35,924.00
7 57010	SERIAL BOND INTEREST			7,903.00
Total			43,827.00	43,827.00
Adjusting Journal Entries JE # 5		03.909		
to adjust advance from general fund				
66 63911	ADV DUE TO GENERAL FUND		715,897.00	
66 63011	DUE TO GENERAL FUND			715,897.00
Total			715,897.00	715,897.00
Adjusting Journal Entries JE # 6				
to adjust opening retained earnings to agree to PY FS.				
4 54223	ELECTRIC (UTILITY)		4.00	
66 909	UNDESIGNATED FUND BALANCE			4.00
Total			4.00	4.00
Adjusting Journal Entries JE # 8		9700.01		
Client Entry - To adjust OPEB payable to agree to OPEB report				
1 58070	OPEB EXPENSE		204,268.00	
66 602	OPEB PAYABLE			204,268.00
Total			204,268.00	204,268.00

Client: **545046.001 - City of Rye**
 Engagement: **545046 - City of Rye**
 Period Ending: **12/31/2012**
 Trial Balance: **Boat Basin Fund**
 Workpaper: **1300.00D - Boat Basin Fund - AJE Report Published**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 2		9700.01		
client entry to adjust OPEB payable to agree to OPEB report				
58070	OPEB EXPENSE		21,424.00	
602	OPEB PAYABLE			21,424.00
Total			<u>21,424.00</u>	<u>21,424.00</u>
 Adjusting Journal Entries JE # 3		 01.1102		
To fully depreciate 1999 & 2000 marina dredging project still on the City's books that should have been fully depreciated in 7 years per capitalization policy				
53113	DEPREC EXP IMPROVEMENTS		176,317.00	
113	ACCUM DEPREC IMPROVEMENTS			176,317.00
Total			<u>176,317.00</u>	<u>176,317.00</u>

Client: 545046.001 - City of Rye
 Engagement: 545046 - City of Rye
 Period Ending: 12/31/2012
 Trial Balance: Golf Club Fund
 Workpaper: 1300.00E - Golf Fund - AJE Report Published

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 4		9215.00		
to amortize deferred issuance cost				
627801 54917	ISSUANCE COSTS AMORTIZATION		3,213.00	
485	DEFERRED CHRGS - ISSUE COST			3,213.00
Total			3,213.00	3,213.00
Adjusting Journal Entries JE # 5		9215.00		
to amortize deferred charges on loss and premium of refunding				
62802	DEF CHGS - PREMIUM ON REFUNDIN		18,700.00	
627804 57010	SERIAL BOND INTEREST			8,212.00
62801	DEF CHGS - LOSS ON REFUNDING			10,488.00
Total			18,700.00	18,700.00
Adjusting Journal Entries JE # 6		9700.01		
Client Entry - to adjust OPEB payable per OPEB report				
602	OPEB PAYABLE		19,023.00	
627800 58070	OPEB EXPENSE			19,023.00
Total			19,023.00	19,023.00

Client: **545046.001 - City of Rye**
 Engagement: **545046 - City of Rye**
 Period Ending: **12/31/2012**
 Trial Balance: **Risk Retention Fund**
 Workpaper: **1300.00F - Risk Retention Fund - AJE Published**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 4				
to adjust the accrued liabilities to the actuarial calculated IBNR reserve				
601	ACCRUED LIABILITIES		72,000.00	
54991	JUDGEMENTS & CLAIMS			72,000.00
Total			<u>72,000.00</u>	<u>72,000.00</u>
Adjusting Journal Entries JE # 5				
to reverse PY accrual for general insurance recoveries and book current year accrual				
		01.0380A		
268000	GENERAL INS RECOVERIES		130,255.00	
380	ACCOUNTS RECEIVABLE		251,138.00	
268000	GENERAL INS RECOVERIES			251,138.00
380	ACCOUNTS RECEIVABLE			130,255.00
Total			<u>381,393.00</u>	<u>381,393.00</u>

City of Rye, New York

Addendum A

Control Deficiencies

- **General Fund**

Fund Balance – Restricted for Workers' Compensation Benefits

Effective January 2009, the City was no longer self-insured for workers' compensation claims. Up until that time, the City had established a restriction of its fund balance for workers' compensation benefits in the General Fund pursuant to Section 6-J of General Municipal Law to fund its self-insured program.

Recommendation

We recommend that since the City is no longer self-insured, that the funds be 1) either transferred to another legally restricted fund or 2) be applied to budgetary appropriations in a future year in accordance with the provisions of Section 6-J of the General Municipal Law. However, an amount should be retained in this restriction at a level representing outstanding claims filed while the City was self-insured prior to January 2009. We have noted that the City appropriated monies from this restriction in both the 2012 and 2013 adopted budgets and should continue this practice until such time that all prior claims have been closed.

- **Capital Projects Fund**

Inactive Projects

Our audit of the Capital Projects Fund indicated that several projects had no financial activity during the current fiscal year.

Recommendation

A lack of financial activity in a capital project over an extended period of time may be an indication of the project's completion. Upon determination that a capital project has been completed, the governing board should pass a resolution indicating this status and directing the disposition of the unexpended proceeds. If the unexpended balance of the project consists of monies provided from obligations, its use would be restricted to the payment of outstanding indebtedness. If the remaining balance consists of a return of a contribution from an operating fund, it should be returned to that fund to be used for any lawful purpose.

- **Capital Assets**

Capital Assets Inventory

The City has not performed a physical inventory of its capital assets, primarily machinery, equipment and vehicles, in many years.

Recommendation

We recommend that the City follow through with its plan for a physical inventory of its capital assets to ensure that only those assets currently in use are reported in the books and records.

City of Rye, New York

Addendum A

Control Deficiencies

- **Interfund Charges/Charges for Services**

We again noted that the General Fund charges the Boat Basin and Golf Club Funds for their respective share of certain overhead costs. The allocation of these costs continues to be based on information provided by an independent consultant's report prepared in 2002.

Recommendation

We suggest that the methodology for determining these interfund charges be reviewed and updated periodically to appropriately reflect changes that occur over time.

- **Internal Control**

Segregation of Duties

An effective system of internal control provides for the distribution of duties among available personnel, so that no one employee controls all phases of a transaction without some independent verification by another employee. During the course of our audit and through inquiry of various department personnel, we noted that certain positions have either been eliminated or continue to remain vacant. This limited staffing could pose a potential risk for insufficient segregation of duties.

Recommendation

Although we are aware that resources are scarce and should not in all instances be dedicated to satisfy internal control dictates and that the cost of internal control should not outweigh the benefits, we believe that this matter is important enough to be brought to the attention of those charged with governance.

Journal Entries

Our audit of the City's procedures related to authorization and approval of manual journal entries disclosed that there is no formal review and approval process in place.

Recommendation

Manual journal entries in excess of a predetermined monetary threshold should be reviewed by an individual not involved in creating the entry, to ensure appropriateness and accuracy. In order to improve the City's internal control, we recommend that consideration be given to redistributing these duties among available personnel.

Procurement Policy

The purpose of obtaining bids or quotations is to encourage competition in the procurement of supplies, equipment, and services, which will be paid for by public funds. Competitive bids or quotations should be solicited in connection with all purchases, whenever feasible, and in the best interest of the City. According to New York State General Municipal Law Section 103, all

City of Rye, New York

Addendum A

Control Deficiencies

- **Internal Control** *(Continued)*

Procurement Policy (Continued)

purchase contracts for materials, equipment, or supplies involving an annual expenditure of over twenty thousand dollars (\$20,000) and all public works contracts involving an expenditure of more than thirty five thousand dollars (\$35,000) should be awarded on the basis of public advertising and competitive bidding. During our audit, it was noted there is an administrative error in the City's procurement policy, whereby these amounts are transposed.

Recommendation

We recommend that the City make a technical correction to its purchasing policy to comply with the thresholds per the General Municipal Law. In addition, the City should ensure that all purchases meeting the annual dollar thresholds for competitive bidding are appropriately sought.

Procurement Policies for City's Enterprise Fund Operations

In order to enhance internal control with respect to the procurement of goods and services for the City's Boat Basin and Golf Club operations, we believe certain processes can be improved.

Recommendation

We recommend that a comprehensive policies and procedures manual be designed and implemented, specifically tailored for the operations of the Golf Course and Boat Basin, keeping in mind the unique (to government) nature of these services. Some other key points to consider are as follows:

1. While a formal bid process would be unusual for procuring food and liquor, policies and procedures are nonetheless necessary. The City should approve (or delegate the approval process) to the manager who oversees the procurement of these items. Given the fact that the restaurant needs to procure certain items based on the specific needs of its customers, it is possible that only one, sole source vendor would be able to meet this obligation.
2. Food and liquor inventory control – inventory should be taken periodically and the results compared to a computerized inventory listing. In addition, special attention should be paid to gross margins (sales minus cost of goods sold) realized, and compare these amounts to industry-wide catering hall standards. Food and liquor spoilage rates could also be compared to these same standards.
3. Staffing agencies – Requests for proposals must be sought for the services that these type of outside vendors supply, as this type of service is not considered a "professional services contract" exempt from this requirement. Professional services generally include services rendered by attorneys, engineers, and certain other services requiring specialized or technical skills, expertise or knowledge, the exercise of professional judgment or a high degree of creativity. Using an RFP is a common method of seeking competition where competitive bidding is not required

City of Rye, New York

Addendum A

Control Deficiencies

- **Internal Control** (*Continued*)

Procurement Policies for City's Enterprise Fund Operations (Continued)

and where price should not necessarily be the sole criterion for award of the contract. The contract between the City and the awarded vendor should specify the hourly rates (including fringe benefits) to be charged based on the title and level of personnel supplied, that labor and payroll tax laws will be followed and that the City has the right to request and inspect the vendor's payroll documentation to support the invoice charges.

4. With respect to both the City's seasonal employees, as well as personnel supplied by the outside staffing agency, we suggest that an attendance system requiring these workers to "punch in" via an electronic hand scan be instituted. We further recommend that the City consider requiring multiple hand scans take place during the day (i.e. beginning of day, lunch check in/out and end of day). The City should generate the attendance report, on at least a weekly basis, and reconcile such report to the billings received from the staffing agency to ensure the City is only charged for workers whose attendance has been verified.

Boat Basin Mooring Fees

We noted several instances in which permit holders submitted their mooring fee payments after the February 15th deadline. There does not appear to be a procedure currently in place to assess late fees.

Recommendation

We recommend that the City consider implementing late fee charges for payments made after the deadline. We believe implementing such fees will reduce the number of late payments, which will facilitate the registration renewal process and improve the City's cash flow.

City of Rye, New York

Addendum B

Other Matters

- **Governmental Accounting Standards Board (“GASB”) Statement No. 65 “Items Previously Reported as Assets and Liabilities”**

In June 2011, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 63. This Statement provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced in GASB Concept Statement No. 4, issued in June 2007. Concepts Statement No. 4, *Elements of Financial Statements*, established definitions for the seven fundamental components of historically based financial statements of state and local governments. These elements are defined as follows:

- *Assets* are resources with present service capacity that the government presently controls.
- *Liabilities* are present obligations to sacrifice resources that the government has little or no discretion to avoid.
- An *outflow of resources* is a consumption of net assets by the government that is applicable to the *current* reporting period.
- A *deferred outflow of resources* is a consumption of net assets by the government that is applicable to a *future* reporting period.
- An *inflow of resources* is an acquisition of net assets by the government that is applicable to the *current* reporting period.
- A *deferred inflow of resources* is an acquisition of net assets by the government that is applicable to a *future* reporting period.
- *Net position* is the residual of all other elements presented in a statement of net position.

The GASB introduced this Statement since previous financial reporting standards did not include guidance for reporting these *resource* elements, which are distinct from assets and liabilities. This Statement amended the net asset reporting requirements in GASB Statement No. 34 “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*” and other applicable pronouncements by incorporating the deferred inflow and outflow of resources into the definitions of the required components of the residual measure and by renaming that measure as *net position*, rather than *net assets*. The provisions of this Statement were effective for the City’s financial statements for the year ending December 31, 2012 and were incorporated in the financial statements.

While GASB Concepts Statement No. 4 established the elements and Statement No. 63 established the framework and guidance for the new reporting model, Statement No. 65, issued in March 2012, established accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain specific items that were previously reported as assets and liabilities. Specifically, this Statement addresses changes in the reporting of 1) refunding of debt, 2) non-exchange transactions, 3) sales of future revenues and intra-entity transfers of future revenues, 4) debt issuance costs and 5) leases and other less common transactions.

This Statement also clarified previous guidance in regards to revenue recognition in governmental funds. While there is no change in the concept that financial resources should be recognized in the accounting period in which they become both measurable and available, under this Statement, revenue that does not meet the availability criteria is to now be reported as deferred inflow of resources, rather than as deferred revenues in the liability section. The provisions of this Statement are effective for the City’s financial statements for the year ending December 31, 2013.

City of Rye, New York

Addendum B

Other Matters

- **Governmental Accounting Standards Board (“GASB”) Statement No. 68 “Accounting and Financial Reporting for Pensions”**

In June 2012, GASB issued Statement No. 68. This Statement establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. This pronouncement supersedes Statement No. 27, “*Accounting for Pensions by State and Local Governmental Employers*.” Under this previous standard, *cost-sharing multiple employer defined benefit plans* (such as the plans administered by the State of New York for its municipalities and school districts) which share their assets *and* their obligations to provide pension benefits to their employees – i.e. plan assets can be used to pay the pensions of the employees of any municipal or school district employer that provides pensions through the plans, have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plans’ own financial statements for all of the participating municipalities and school districts combined.

The new Statement was designed to give users of the financial statements of cost-sharing employers access to better, more transparent financial information through the municipality or school district’s own financial statements. Under the new standards, cost-sharing employers will be required to report in their Statement of Net Position a net pension liability, pension expense and pension related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all of the municipalities and school districts in the plan. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries.

Statement No. 68 expands disclosures in the notes to financial statements and the required supplementary information (“RSI”). The note disclosures must include 1) a description of the plan(s) and the benefits provided, 2) the significant assumptions employed in the measurement of the net pension liability, 3) descriptions of benefit changes and changes in assumptions, 4) assumptions related to the discount rate and the impact on the total pension liability of a one percentage point increase or decrease in the discount rate and 5) the net pension liability and deferred inflows and outflows of resources. The RSI must provide ten year historical information (when available) regarding the entity’s proportionate share of the net pension liability and a schedule of the entity’s contributions. Notes to RSI are also now required regarding factors that significantly affect the trends in the schedules.

It is important to note that Statement No. 68 relates to *accounting and financial reporting* issues only, that is, how pension costs and obligations are measured and reported in the entity’s audited financial statements. This Statement *does not* address how the entity approaches the *funding* of the plan. The provisions of this Statement are effective for the City’s financial statements for the year ending December 31, 2015, with earlier implementation encouraged.