



CITY OF FOUNTAIN VALLEY

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September 28, 2015

The Honorable Glenda Sanders
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

Subject: **Response to Grand Jury Report- "Unfunded Retiree Health Care Obligations- A Problem for Public Agencies?"**

Honorable Judge Sanders:

In accordance with the California Penal Code, Section 933 and 933.05, the City of Fountain Valley is submitting this response to the Grand Jury Report **"Unfunded Retiree Health Care Obligations - A Problem for Public Agencies?"** As stipulated in the statute, the responses are provided for each Grand Jury finding and recommendation. Included with the responses are statements of agreement or disagreement, either wholly or partially, and the corresponding reasons for each.

Per the requirements and instructions, the City of Fountain Valley is responding to Findings (F.3 and F.4) and Recommendations (R.3 and R.4).

Responses to Grand Jury Findings:

F.3 Anaheim, Buena Park, County of Orange, Huntington Beach, Lake Forest and Stanton were in compliance with the requirement to contribute a full 100% or more of their Annual Required Contribution in the FY 2012-13. The remaining 26 agencies were not in compliance.

Response: The City of Fountain Valley disagrees with this finding. The City of Fountain Valley is in compliance with all laws and regulations. As required by GASB, the City of Fountain Valley annually adjusts the net retiree health liability in accordance with the actuarial valuation. Actual contributions are based on annual required cash flow payments and are not required to equal the ARC to be in compliance. Further, the City's

independent auditors have confirmed all reporting for unfunded health care obligations are accurate and in compliance with all GASB requirements.

F.4 All agencies surveyed (except Anaheim) do not disclose retiree health benefits as part of employee compensation per GAAP standards.

Response: The City of Fountain Valley disagrees partially with this finding. While we are not aware what other agencies disclose, the City of Fountain Valley does include the retiree health costs as part of the employee fringe rates for budgeting, financial reporting and expenditure reporting purposes. These costs are charged and accumulated in the City's Employee Benefits Fund for disbursement. The City's treatment is consistent with GAAP standards.

The City already recognizes health care benefits in employee compensation and is properly reporting Other Postemployment Benefits in the City's Comprehensive Annual Financial Report (CAFR) as required under GASB Statement No. 45. To support we are in compliance with GAAP standards, the City's CAFR is audited each fiscal year for compliance with GASB Statement No. 45 by external auditors. The City has not received any findings from external auditors related to this item.

Responses to Grand Jury Recommendations:

R.3 The 26 agencies that are not recognizing the full amount of their Annual Required Contribution as expense in the current period and should comply with the requirement to do so. (F.3)

Response: This recommendation will not be implemented. There is not a requirement for any City to contribute the full 100% of its Annual Required Contribution. The requirement is that an agency's unfunded liability should either be contributed to or recognized as a liability in the entity's financial statements. This liability has been recorded in the City's financial statements. Every two years an independent OPEB actuarial calculation is performed and the retiree health care liability is adjusted to the new actuarially determined amount and recorded in the City's financial statements. The full cost of the annual "Pay-Go" obligation is recorded as an expense in the City's Employee Benefits Fund. The City's treatment is consistent with GAAP standards. The City will work with its auditor to ensure compliance with all requirements.

R.4 All agencies surveyed should recognize retiree health care benefits in employee compensation in conformity with GAAP. (F.4)

Response: The recommendation is to recognize retiree health care benefits in conformity with GAAP and the City is in conformity with GAAP, however, further actions that are recommended will not be implemented because it is not warranted or is not reasonable.

The City of Fountain Valley already accounts for the retiree healthcare costs in its budget and associated reporting of expenditures as part of salary and wages. The City already

recognizes health care benefits in employee compensation and is properly reporting Other Postemployment Benefits in the City's Comprehensive Annual Financial Report (CAFR) as required under GASB Statement No. 45.

The City's Other Postemployment Benefits are properly disclosed in Note 7 to the Basic Financial Statements (See FY 2013-14 CAFR pages 60-64) and required disclosures are included in the CAFR's Required Supplemental Information section (FY 2013-14 CAFR page 73). To support we are in compliance with GAAP standards, the City's CAFR is audited each fiscal year for compliance with GASB Statement No. 45 by external auditors. The City's reporting is consistent with GAAP standards.

On behalf of the City of Fountain Valley, I want to thank you for the opportunity to provide this response to the Orange County Grand Jury. If you have any questions regarding the responses provided in this letter, please contact Mr. David Cain, Director of Finance/Treasurer, at (714) 593-4418.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Bob Hall', is written over a horizontal line.

Bob Hall, City Manager
City of Fountain Valley

cc: Mayor and City Council
David Cain, Director of Finance/Treasurer
Colin Burns, Harper & Burns – Attorney for the City
Paul S. Borzcik, Foreman, FY 2014-15 Orange County Grand Jury