ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	02/18/2016
Retirement Board of Authority			

SUBJECT:		ITEM #:	2015/2016-030
Public Comments		Enclosure:	No
		Action Item	No

Prepared by:	Keenan Financial Services
Requested by:	Retirement Board of Authority

BACKGROUND:

The public may address the Retirement Board of Authority on any matter pertaining to the Board that is not on the agenda.

RECOMMENDATION:

The Chair reserves the right to limit the time of presentations by individual or topic.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	02/18/2016
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-031
Approval of Agenda		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Under California Government Code Section §54950 (The Ralph M. Brown Act) the "Legislative Body" is required to post an agenda detailing each item of business to be discussed. The Authority posts the agenda in compliance with California Government Code Section §54954.2.

STATUS:

Unless items are added to the agenda according to G.C. §54954.2 (b) (1) (2) (3) the agenda is to be approved as posted.

RECOMMENDATION:

Subject to changes or corrections, the agenda is to be approved.

AGENDA

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
FEBRUARY 18, 2016
1:00 PM–2:00 PM

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
ADMINISTRATION BUILDING, ROOM A140
3041 WEST AVENUE K
LANCASTER, CA 93536
PHONE (661) 722-6300

I. CALL TO ORDER

II. ROLL CALL

<u>RETIREMENT BOARD OF AUTHORITY (the "Board") MEMBERS</u>:

Executive Director Business Services	Diana Keelen
Vice President Human Resources	Mark Bryant
Board of Trustees Member	Michael Adams

<u>PROGRAM COORDINATOR</u>:

Senior Vice President	Gail Beal

<u>CONSULTANTS:</u>

RPM Consultant Group (RPM)	Chuck Thompson

<u>OTHERS</u>

None

III. PUBLIC COMMENTS — Information

2015/2016-030

The public may address the Retirement Board of Authority on any matter pertaining to the Agency that is not on the agenda. The Chair reserves the right to limit the time of presentations by individual or topic.

IV. APPROVAL OF AGENDA — Action

2015/2016-031

The Retirement Board of Authority retains the right to change the order in which agenda items are discussed. Subject to review by the Retirement Board of Authority the agenda is to be approved as presented. Items may be deleted or added for discussion only according to G.C. Section 54954.2.
PUBLIC COMMENTS:
BOARD CONSIDERATION

V. APPROVAL OF MINUTES

Action
2015/2016-032

The Retirement Board of Authority will review the Minutes from the previous meeting on January 12, 2016 for any adjustments and adoption.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VI. ADMINISTRATION

ACTUARIAL VALUATION STUDY UPDATE

Information
2015/2016-033

The District's current Actuarial Valuation Study has an effective date of **July 1, 2015**. The Retirement Board of Authority membership will review the status of two (2) updates to the Actuarial Valuation Study and consider the implications of the recently issued GASB Standards.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

STATUS OF DISTRICT'S CURRENT OPEB PLAN INDEPENDENT AUDITOR'S REPORT

Information
2015/2016-034

The Independent Auditors Report provides the District's OPEB Plan with an Independent Auditor's certification of GASB accounting and financial reporting standards for OPEB expenses, OPEB liabilities, Note disclosures and Required Supplementary Information (RSI).
PUBLIC COMMENTS:
BOARD CONSIDERATION:

ANNUAL REPORT TO THE GOVERNING BOARD OF TRUSTEES

Action
2015/2016-035

An Annual Report regarding the current status of the District's Public Entity Investment Trust shall be presented to the Antelope Valley Community College Board of Trustees. The RBOA membership shall discuss key elements of the Report presentation to the District's Board of Trustees.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VII. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS

Information
2015/2016-036

Each member of the Retirement Board of Authority may report about various matters involving the Authority. There will be no Authority discussion except to ask questions, and no action will be taken unless listed on a subsequent agenda.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

Information
2015/2016-037

The Program Coordinator and Consultants will report to the Retirement Board of Authority about various matters involving the Authority. There will be no Authority discussion except to ask questions, and no action will be taken unless listed on a subsequent agenda.

VIII. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

Information
2015/2016-038

Board members and visitors may suggest items for consideration at the next Retirement Board of Authority meeting.

IX. ADJOURNMENT

Americans with Disabilities Act: The Antelope Valley Community College District Retirement Board of Authority conforms to the protections and prohibitions contained in Section 202 of the Americans with Disabilities Act of 1990 and the federal rules and regulations adopted in implementation thereof. A request for disability-related modifications or accommodation, in order to participate in a public meeting of the Antelope Valley Community College District Retirement Board of Authority, shall be made to: Diana Keelen, Executive Director Business Services, Antelope Valley Community College District, 3041 West Avenue K, Lancaster, Ca 93536: Phone (661) 722-6300.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	02/18/2016
Retirement Board of Authority			

SUBJECT:		ITEM #:	2015/2016-032
Approval of Minutes		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

As a matter of record and in accordance with the Brown Act, minutes of each meeting are kept and recorded.

STATUS:

The Board will review the Minutes from the previous Retirement Board of Authority meeting on **January 12, 2016.**

RECOMMENDATION:

Subject to changes or corrections, the minutes are to be approved.

MINUTES

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
JANUARY 12, 2016
1:00 PM–3:00 PM

I. <u>CALL TO ORDER</u>

1. Meeting was called to order at 1:00 PM by Diana Keelen, Executive Director Business Services.

II. <u>ROLL CALL</u>

1. All RBOA members reported their presence at the meeting.
2. All District Investment Trust Coordinators/Consultants were in attendance. Gail Beal of Keenan Financial Services and Cary Allison of Morgan Stanley attended via teleconference

III. <u>PUBLIC COMMENTS</u>

1. There were no public comments.

IV. <u>APPROVAL OF AGENDA</u>

1. Michael Adams Motioned to accept the Agenda as presented; Motion was seconded by Mark Bryant

V. <u>APPROVAL OF MINUTES</u>

1. Michael Adams Motioned to accept the Minutes from the previous RBOA meeting as presented; Motion was seconded by Mark Bryant.

VI. <u>INVESTMENTS</u>

1. Portfolio Performance Review

Cary Allison of Morgan Stanley (MS) reviewed the performance of the Investment Trust's portfolio account as of December 31, 2015.

Time weighted return net of fees:

Month to Date	Quarter to Date	Year to Date	Latest 1 Year	Annualized latest 3 Year	Annualized latest 5 Year	Annualized Inception to Date
-1.79	2.07	N/A	N/A	N/A	N/A	-3.88

Cary Allison advised the Board that the market just had the worst opening week ever. There was excessive selling going on. He also said none of the indices have been up for the past 12-16 months. Michael Adams Motioned to accept the Portfolio Performance Review as presented; Motion was seconded by Mark Bryant.

2. Market Overview

Cary Allison presented Morgan Stanley's Global Investment Committee capital market observations. The stock market prices follow Earnings, and Earnings have been relatively low due to the appreciation of the U.S Dollar over the past couple of years. Another thing affecting the market now is Energy. Oil prices have declined to just below $30 per barrel. These prices cannot remain this low for long. Cary also advised the Board that markets usually tend to have a 10% correction every 18 months. Consumerism has showed an 8% growth this year, but export is slowing. Overall, although the month of December was not very good, we had a good Quarter.

VII. ADMINISTRATION

1. **Disbursement Report**

   Roslyn Washington of Keenan presented the Disbursement Report schedules reflecting expenses for Keenan, BTC & Morgan Stanley for their services during the posted period. Michael Adams Motioned to ratify the "Service Entities" posted period expenses; Motion was seconded by Mark Bryant.

2. **Retirement Board of Authority Bylaws**

   Pursuant to its governance protocols, the RBOA reviewed the Bylaws that were previously approved and the "redline" changes that were suggested by Keenan Financial Services, RPM Consultant Group, and the District Legal Counsel. Motion to approve the new Bylaws was made by Michael Adams and the Motion was seconded by Mark Bryant.

3. **The Comprehensive Compliance Plan, including the "Substantive Plan".**

   Roslyn Washington of Keenan provided a copy of the completed Initial OPEB Questionnaire used to gather data to create the Comprehensive Compliance Plan, including the "Substantive Plan". The RBOA was advised that their Substantive Plan in e-library format was presented to the District for fiscal year ending June 30, 2015. Updates to this plan will be made on an annual basis. Chuck Thompson, RPM Consultant Group indicated that the district was delivered their copy of Volume # I of the Comprehensive Compliance Plan including the Substantive Plan. Completion of the binders with the Vendor RFP responses still needs to be completed which possibly will be completed after the next RBOA meeting.

4. **Transfer of Assets into the Trust.**

   The Districts asset transfer into the OPEB Investment Trust may require a tailored funding procedure. RBOA Chair Diana Keelen acknowledged that the District has funded $387,113.00 into the Trust for the current fiscal year 2015-2016 and based on their current Actuarial Valuation Study this will be the amount funded annually pending the next report provided from Total Compensation Inc.

5. **Annual Report to the "Governing Board of Trustees".**

   A draft copy of the presentation originally scheduled to be presented to the Board of Trustees at the February 8, 2016 Board meeting was <u>no</u>t reviewed at this meeting. The RBOA has decided to take <u>no</u> action at this time and to schedule a RBOA meeting in February where it will be reviewed and approved and then later presented to the Board of Trustees at their March 2016 meeting. Michael Adams Motioned to take no action at this time. Mark Bryant seconded the Motion.

VIII. INFORMATION REPORTS

1. **Retirement Board of Authority Comments**
    a. Diana Keelen told the Coordinators/Consultants how much she really appreciates all of their hard work. Member Michael Adams advised that AVCCD has a new Board of Trustee member, Dr. Laura Herman.

2. **Program Coordinator/Consultant Comments**
    a. There were no Program Coordinator/Consultant comments.

3. **Date, Time and Agenda Items for Next Meeting**

    a. **February 18, 2016: 1:00 PM-2:00 PM.**
    RBOA Meeting to specifically approve the Presentation for the Board of Trustees
    b. **Board of Trustee Meeting March 14, 2016: 5:30 P.M.**
    AVCCD District, Room A140

4. **Adjournment**
    a. Meeting was adjourned @ 1:50 PM by Diana Keelen.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	02/18/2015
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-033
Actuarial Valuation Study Update		Enclosure:	Yes
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Paragraph 12, of GASB Statement 45, states that an Actuarial Valuation Study should be performed at least biannually. The Retirement Board of Authority should discuss the need for obtaining an updated study.

STATUS:

The District's most recent draft Actuarial Valuation Study has an effective date of **January 19, 2016**, which used a 6.5% discount rate. The Retirement Board of Authority shall compare it to the previous Actuarial Valuation Study dated **September 20, 2015**, which used a 4.5% discount rate. The RBOA will also consider anticipated implications from GASB's recently issued Standards.

RECOMMENDATION:

The Retirement Board of Authority shall hear and receive the information presented.

Antelope Valley College
Actuarial Study of
Retiree Health Liabilities
As of July 1, 2015

Prepared by:
Total Compensation Systems, Inc.

Date: September 20, 2015

Table of Contents

Antelope Valley College
Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

Antelope Valley College engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program as of July 1, 2015 (the valuation date). The numbers in this report are based on the assumption that they will first be used to determine accounting entries for the fiscal year ending June 30, 2015. If the report will first be used for a different fiscal year, the numbers will need to be adjusted accordingly.

This report does not reflect any cash benefits paid unless the retiree is required to provide proof that the cash benefits are used to reimburse the retiree's cost of health benefits. Costs and liabilities attributable to cash benefits paid to retirees are reportable under Governmental Accounting Standards Board (GASB) Standards 25/27.

This actuarial study is intended to serve the following purposes:

- To provide information to enable Antelope Valley CCD to manage the costs and liabilities associated with its retiree health benefits.
- To provide information to enable Antelope Valley CCD to communicate the financial implications of retiree health benefits to internal financial staff, the Board, employee groups and other affected parties.
- To provide information needed to comply with Governmental Accounting Standards Board Accounting Standards 43 and 45 related to "other postemployment benefits" (OPEB's).

Because this report was prepared in compliance with GASB 43 and 45, as appropriate, Antelope Valley CCD should not use this report for any other purpose without discussion with TCS. This means that any discussions with employee groups, governing Boards, etc. should be restricted to the implications of GASB 43 and 45 compliance.

This actuarial report includes several estimates for Antelope Valley CCD's retiree health program. In addition to the tables included in this report, we also performed cash flow adequacy tests as required under Actuarial Standard of Practice 6 (ASOP 6). Our cash flow adequacy testing covers a twenty-year period. We would be happy to make this cash flow adequacy test available to Antelope Valley CCD in spreadsheet format upon request.

We calculated the following estimates separately for active employees and retirees. As requested, we also separated results by the following employee classifications: Certificated Management, Certificated, Classified and Classified Management. We estimated the following:

- the total liability created. (The actuarial present value of total projected benefits or APVTPB)
- the ten year "pay-as-you-go" cost to provide these benefits.
- the "actuarial accrued liability (AAL)." (The AAL is the portion of the APVTPB attributable to employees' service prior to the valuation date.)

- the amount necessary to amortize the UAAL over a period of 25 years.

- the annual contribution required to fund retiree benefits over the working lifetime of eligible employees (the "normal cost").

- The Annual Required Contribution (ARC) which is the basis of calculating the annual OPEB cost and net OPEB obligation under GASB 43 and 45.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this information beyond brief tests for reasonableness and consistency.

All cost and liability figures contained in this study are estimates of future results. Future results can vary dramatically and the accuracy of estimates contained in this report depends on the actuarial assumptions used. Normal costs and liabilities could easily vary by 10 - 20% or more from estimates contained in this report.

B. General Findings

We estimate the "pay-as-you-go" cost of providing retiree health benefits in the year beginning July 1, 2015 to be $482,158 (see Section IV.A.). The “pay-as-you-go” cost is the cost of benefits for current retirees.

For current employees, the value of benefits "accrued" in the year beginning July 1, 2015 (the normal cost) is $889,069. This normal cost would increase each year based on covered payroll. Had Antelope Valley CCD begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. We estimate the amount that would have accumulated to be $10,385,223. This amount is called the "actuarial accrued liability” (AAL). The remaining unamortized balance of the initial unfunded AAL (UAAL) is $7,928,582. This leaves a “residual” AAL of $2,456,641.

We calculated the annual cost to amortize the residual unfunded actuarial accrued liability using a 4.5% discount rate. We used an open 25 year amortization period. The current year cost to amortize the residual unfunded actuarial accrued liability is $121,488.

Combining the normal cost with both the initial and residual UAAL amortization costs produces an annual required contribution (ARC) of $1,389,475. The ARC is used as the basis for determining expenses and liabilities under GASB 43/45. The ARC is used in lieu of (rather than in addition to) the “pay-as-you-go” cost.

Costs and liabilities increased more than would normally be expected for the following reasons:

1) The new Actuarial Standard of Practice 6 (ASOP 6) requires valuing an “implicit rate subsidy” reflecting that non-Medicare retiree rates are not set at a self-sustaining level. The difference between retiree premiums and self-sustaining premiums is called an “implicit rate subsidy” and is valued as an employer cost.
2) We reduced the amortization period for the “residual” AAL to align it with the remaining amortization period for the initial UAAL. This increases the ARC slightly.
3) We reduced the long term inflation assumption from 3% to 2.75% to be more consistent with pension assumptions. This affects the valuation only to the extent other economic assumptions are not changed accordingly. The overall impact is to increase the AAL and ARC somewhat.

We based all of the above estimates on employees as of June, 2015. Over time, liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.

C. Description of Retiree Benefits

Following is a description of the current retiree benefit plan:

	Faculty	Classified	Management
Benefit types provided	Medical, dental, vision and life	Medical, dental, vision and life	Medical, dental, vision and life
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	10 years*	10 years*	10 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
College Contribution %	100%	100%	100%
College Cap	Active cap	Active cap	Active cap

*8 years with the District, last five in regular employment

D. Recommendations

It is outside the scope of this report to make specific recommendations of actions Antelope Valley CCD should take to manage the substantial liability created by the current retiree health program. Total Compensation Systems, Inc. can assist in identifying and evaluating options once this report has been studied. The following recommendations are intended only to allow the District to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of Antelope Valley CCD's practices, it is possible that Antelope Valley CCD is already complying with some or all of our recommendations.

- We recommend that Antelope Valley CCD inventory all benefits and services provided to retirees – whether contractually or not and whether retiree-paid or not. For each, Antelope Valley CCD should determine whether the benefit is material and subject to GASB 43 and/or 45.

- We recommend that Antelope Valley CCD conduct a study whenever events or contemplated actions significantly affect present or future liabilities, but no less frequently than every two years, as required under GASB 43/45.

- We recommend that the District communicate the magnitude of these costs to employees and include employees in discussions of options to control the costs.

- Under GASB 45, it is important to isolate the cost of retiree health benefits. Antelope Valley CCD should have all premiums, claims and expenses for retirees separated from active employee premiums, claims, expenses, etc. To the extent any retiree benefits are made available to retirees over the age of 65 – ***even on a retiree-pay-all basis*** – all premiums, claims and expenses for post-65 retiree coverage should be segregated from those for pre-65 coverage. Furthermore, Antelope Valley CCD should arrange for the rates or prices of all retiree benefits to be set on what is expected to be a self-sustaining basis.

- Antelope Valley CCD should establish a way of designating employees as eligible or ineligible for future OPEB benefits. Ineligible employees can include those in ineligible job classes; those hired after a designated date restricting eligibility; those who, due to their age at hire cannot qualify for

District-paid OPEB benefits; employees who exceed the termination age for OPEB benefits, etc.

- Several assumptions were made in estimating costs and liabilities under Antelope Valley CCD's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, Antelope Valley CCD should maintain a retiree database that includes – in addition to date of birth, gender and employee classification – retirement date and (if applicable) dependent date of birth, relationship and gender. It will also be helpful for Antelope Valley CCD to maintain employment termination information – namely, the number of OPEB-eligible employees in each employee class that terminate employment each year for reasons other than death, disability or retirement.

Respectfully submitted,

Geoffrey L. Kischuk, FSA, MAAA, FCA
Consultant
Total Compensation Systems, Inc.
(805) 496-1700

PART II: BACKGROUND

A. Summary

Accounting principles provide that the cost of retiree benefits should be "accrued" over employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in 2004 Accounting Standards 43 and 45 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees (including early retirees).

B. Actuarial Accrual

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. There are many different ways to determine the annual accrual amount. The calculation method used is called an "actuarial cost method."

Under most actuarial cost methods, there are two components of actuarial cost - a "normal cost" and amortization of something called the "unfunded actuarial accrued liability." Both accounting standards and actuarial standards usually address these two components separately (though alternative terminology is sometimes used).

The normal cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. This report will not discuss differences between actuarial cost methods or their application. Instead, following is a description of a commonly used, generally accepted actuarial cost method permitted under GASB 43 and 45. This actuarial cost method is called the "entry age normal" method.

Under the entry age normal cost method, the actuary determines the annual amount needing to be expensed from hire until retirement to fully accrue the cost of retiree health benefits. This amount is the normal cost. Under GASB 43 and 45, normal cost can be expressed either as a level dollar amount or a level percentage of payroll.

The normal cost is determined using several key assumptions:

- The current ***cost of retiree health benefits*** (often varying by age, Medicare status and/or dependent coverage). The higher the current cost of retiree benefits, the higher the normal cost.

- The ***"trend" rate*** at which retiree health benefits are expected to increase over time. A higher trend rate increases the normal cost. A "cap" on District contributions can reduce trend to zero once the cap is reached thereby dramatically reducing normal costs.

- ***Mortality rates*** varying by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce normal costs, the mortality assumption is not likely to vary from employer to employer.

- ***Employment termination rates*** have the same effect as mortality inasmuch as higher termination rates reduce normal costs. Employment termination can vary considerably between public agencies.

- The ***service requirement*** reflects years of service required to earn full or partial retiree benefits.

While a longer service requirement reduces costs, cost reductions are not usually substantial unless the service period exceeds 20 years of service.

- ***Retirement rates*** determine what proportion of employees retire at each age (assuming employees reach the requisite length of service). Retirement rates often vary by employee classification and implicitly reflect the minimum retirement age required for eligibility. Retirement rates also depend on the amount of pension benefits available. Higher retirement rates increase normal costs but, except for differences in minimum retirement age, retirement rates tend to be consistent between public agencies for each employee type.

- ***Participation rates*** indicate what proportion of retirees are expected to elect retiree health benefits if a significant retiree contribution is required. Higher participation rates increase costs.

- The ***discount rate*** estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets. For example, employer funds earning money market rates in the county treasury are likely to earn far less than an irrevocable trust containing a diversified asset portfolio including stocks, bonds, etc. A higher discount rate can dramatically lower normal costs. GASB 43 and 45 require the interest assumption to reflect likely *long term* investment return.

The assumptions listed above are not exhaustive, but are the most common assumptions used in actuarial cost calculations. The actuary selects the assumptions which - taken together - will yield reasonable results. It's not necessary (or even possible) to predict individual assumptions with complete accuracy.

If all actuarial assumptions are exactly met and an employer expensed the normal cost every year for all past and current employees and retirees, a sizeable liability would have accumulated (after adding interest and subtracting retiree benefit costs). The liability that would have accumulated is called the actuarial accrued liability or AAL. The excess of AAL over the ***actuarial value of plan assets*** is called the *unfunded* actuarial accrued liability (or UAAL). Under GASB 43 and 45, in order for assets to count toward offsetting the AAL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The actuarial accrued liability (AAL) can arise in several ways. At inception of GASB 43 and 45, there is usually a substantial UAAL. Some portion of this amount can be established as the "transition obligation" subject to certain constraints. UAAL can also increase as the result of operation of a retiree health plan - e.g., as a result of plan changes or changes in actuarial assumptions. Finally, AAL can arise from actuarial gains and losses. Actuarial gains and losses result from differences between actuarial assumptions and actual plan experience.

Under GASB 43 and 45, employers have several options on how the UAAL can be amortized as follows:

- The employer can select an amortization period of 1 to 30 years. (For certain situations that result in a reduction of the AAL, the amortization period must be at least 10 years.)

- The employer may apply the same amortization period to the total combined UAAL or can apply different periods to different components of the UAAL.

- The employer may elect a “closed” or “open” amortization period.

- The employer may choose to amortize on a level dollar or level percentage of payroll method.

PART III: LIABILITIES AND COSTS FOR RETIREE BENEFITS

A. Introduction.

We calculated the actuarial present value of projected benefits (APVPB) separately for each employee. We determined eligibility for retiree benefits based on information supplied by Antelope Valley CCD. We then selected assumptions for the factors discussed in the above Section that, based on plan experience and our training and experience, represent our best prediction of future plan experience. For each employee, we applied the appropriate factors based on the employee's age, sex and length of service.

We summarized actuarial assumptions used for this study in Appendix C.

B. Medicare

The extent of Medicare coverage can affect projections of retiree health costs. The method of coordinating Medicare benefits with the retiree health plan’s benefits can have a substantial impact on retiree health costs. We will be happy to provide more information about Medicare integration methods if requested.

C. Liability for Retiree Benefits.

For each employee, we projected future premium costs using an assumed trend rate (see Appendix C). To the extent Antelope Valley CCD uses contribution caps, the influence of the trend factor is further reduced.

We multiplied each year's projected cost by the probability that premium will be paid; i.e. based on the probability that the employee is living, has not terminated employment and has retired. The probability that premium will be paid is zero if the employee is not eligible. The employee is not eligible if s/he has not met minimum service, minimum age or, if applicable, maximum age requirements.

The product of each year's premium cost and the probability that premium will be paid equals the expected cost for that year. We discounted the expected cost for each year to the valuation date July 1, 2015 at 4.5% interest.

Finally, we multiplied the above discounted expected cost figures by the probability that the retiree would elect coverage. A retiree may not elect to be covered if retiree health coverage is available less expensively from another source (e.g. Medicare risk contract) or the retiree is covered under a spouse's plan.

For any current retirees, the approach used was similar. The major difference is that the probability of payment for current retirees depends only on mortality and age restrictions (i.e. for retired employees the probability of being retired and of not being terminated are always both 1.0000).

We added the APVPB for all employees to get the actuarial present value of total projected benefits (APVTPB). The APVTPB is the estimated present value of all future retiree health benefits for all **current** employees and retirees. The APVTPB is the amount on July 1, 2015 that, if all actuarial assumptions are exactly right, would be sufficient to expense all promised benefits until the last current employee or retiree dies or reaches the maximum eligibility age.

Actuarial Present Value of Total Projected Benefits at July 1, 2015

	Total	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Active: Pre-65	$16,378,208	$351,614	$8,806,828	$6,477,065	$742,701
Post-65	$0	$0	$0	$0	$0
Subtotal	$16,378,208	$351,614	$8,806,828	$6,477,065	$742,701
Retiree: Pre-65	$724,962	$42,770	$342,637	$204,361	$135,194
Post-65	$61,112	$0	$0	$0	$61,112
Subtotal	$786,074	$42,770	$342,637	$204,361	$196,306
Grand Total	$17,164,282	$394,384	$9,149,465	$6,681,426	$939,007
Subtotal Pre-65	$17,103,170	$394,384	$9,149,465	$6,681,426	$877,895
Subtotal Post-65	$61,112	$0	$0	$0	$61,112

The APVTPB should be accrued over the working lifetime of employees. At any time much of it has not been "earned" by employees. The APVTPB is used to develop expense and liability figures. To do so, the APVTFB is divided into two parts: the portions attributable to service rendered prior to the valuation date (the past service liability or actuarial accrued liability under GASB 43 and 45) and to service after the valuation date but prior to retirement (the future service liability).

The past service and future service liabilities are each funded in a different way. We will start with the future service liability which is funded by the normal cost.

D. Cost to Prefund Retiree Benefits

1. Normal Cost

The average hire age for eligible employees is 37. To accrue the liability by retirement, the District would accrue the retiree liability over a period of about 24 years (assuming an average retirement age of 61). We applied an "entry age normal" actuarial cost method to determine funding rates for active employees. The table below summarizes the calculated normal cost.

Normal Cost Year Beginning July 1, 2015

	Total	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
# of Employees	381	14	144	199	24
Per Capita Normal Cost					
Pre-65 Benefit	N/A	$1,960	$3,273	$1,715	$2,043
Post-65 Benefit	N/A	$0	$0	$0	$0
First Year Normal Cost					
Pre-65 Benefit	$889,069	$27,440	$471,312	$341,285	$49,032
Post-65 Benefit	$0	$0	$0	$0	$0
Total	$889,069	$27,440	$471,312	$341,285	$49,032

Accruing retiree health benefit costs using normal costs levels out the cost of retiree health benefits over time and more fairly reflects the value of benefits "earned" each year by employees. This normal cost would increase each year based on covered payroll.

2. Amortization of Unfunded Actuarial Accrued Liability (UAAL)

If actuarial assumptions are borne out by experience, the District will fully accrue retiree benefits by expensing an amount each year that equals the normal cost. If no accruals had taken place in the past, there would be a shortfall of many years' accruals, accumulated interest and forfeitures for terminated or deceased employees. This shortfall is called the actuarial accrued liability (AAL). We calculated the AAL as the APVTPB minus the present value of future normal costs.

The initial UAAL was amortized using level percent, closed 30 year amortization. The District can amortize the remaining or residual UAAL over many years. The table below shows the annual amount necessary to amortize the UAAL over a period of 25 years at 4.5% interest. (Thirty years is the longest amortization period allowable under GASB 43 and 45.) GASB 43 and 45 allow amortizing the UAAL using either payments that stay the same as a dollar amount, or payments that are a flat percentage of covered payroll over time. The figures below reflect level percent, open 25 year amortization.

Actuarial Accrued Liability as of July 1, 2015

	Total	***Certificated Management***	***Certificated***	***Classified***	***Classified Management***
Active: Pre-65	$9,599,149	$183,256	$5,416,275	$3,642,687	$356,931
Post-65	$0	$0	$0	$0	$0
Subtotal	$9,599,149	$183,256	$5,416,275	$3,642,687	$356,931
Retiree: Pre-65	$724,962	$42,770	$342,637	$204,361	$135,194
Post-65	$61,112	$0	$0	$0	$61,112
Subtotal	$786,074	$42,770	$342,637	$204,361	$196,306
Subtot Pre-65	$10,324,111	$226,026	$5,758,912	$3,847,048	$492,125
Subtot Post-65	$61,112	$0	$0	$0	$61,112
Grand Total	$10,385,223	$226,026	$5,758,912	$3,847,048	$553,237
Unamortized Initial UAAL	$7,928,582				
Plan assets at 6/30/15	$0				
Residual UAAL	$2,456,641				
Residual UAAL Amortization at 4.5% over 25 Years	$121,488				

3. Annual Required Contributions (ARC)

If the District determines retiree health plan expenses in accordance with GASB 43 and 45, costs include both normal cost and one or more components of UAAL amortization costs. The sum of normal cost and UAAL amortization costs is called the Annual Required Contribution (ARC) and is shown below.

Annual Required Contribution (ARC) Year Beginning July 1, 2015

	Total
Normal Cost	$889,069
Initial UAAL Amortization	$378,918
Residual UAAL Amortization	$121,488
ARC	$1,389,475

The normal cost remains as long as there are active employees who may some day qualify for District-paid retiree health benefits. This normal cost would increase each year based on covered payroll.

4. Other Components of Annual OPEB Cost (AOC)

Expense and liability amounts may include more components of cost than the normal cost plus amortization of the UAAL. This applies to employers that don't fully fund the Annual Required Contribution (ARC) through an irrevocable trust.

- The annual OPEB cost (AOC) includes assumed interest on the net OPEB obligation (NOO). The annual OPEB cost also includes an amortization adjustment for the net OPEB obligation. (It should be noted that there is no NOO if the ARC is fully funded through a qualifying "plan".)

- The net OPEB obligation equals the accumulated differences between the (AOC) and qualifying "plan" contributions.

PART IV: "PAY AS YOU GO" FUNDING OF RETIREE BENEFITS

We used the actuarial assumptions shown in Appendix C to project ten year cash flow under the retiree health program. Because these cash flow estimates reflect average assumptions applied to a relatively small number of employees, estimates for individual years are **certain** to be ***in***accurate. However, these estimates show the size of cash outflow.

The following table shows a projection of annual amounts needed to pay the District share of retiree health premiums.

Year Beginning July 1	*Total*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
2015	$482,158	$33,929	$259,983	$119,791	$68,455
2016	$480,748	$25,478	$264,251	$131,421	$59,598
2017	$638,705	$13,056	$377,926	$199,277	$48,446
2018	$791,776	$21,026	$459,407	$275,459	$35,884
2019	$823,781	$29,007	$489,227	$279,422	$26,125
2020	$982,487	$36,238	$564,694	$346,846	$34,709
2021	$1,062,298	$26,776	$621,648	$369,725	$44,149
2022	$1,059,605	$27,247	$532,391	$441,144	$58,823
2023	$1,095,163	$23,307	$506,459	$493,313	$72,084
2024	$1,075,908	$15,140	$532,778	$466,007	$61,983

PART V: RECOMMENDATIONS FOR FUTURE VALUATIONS

To effectively manage benefit costs, an employer must periodically examine the existing liability for retiree benefits as well as future annual expected premium costs. GASB 43/45 require biennial valuations. In addition, a valuation should be conducted whenever plan changes, changes in actuarial assumptions or other employer actions are likely to cause a material change in accrual costs and/or liabilities.

Following are examples of actions that could trigger a new valuation.

- An employer should perform a valuation whenever the employer considers or puts in place an early retirement incentive program.
- An employer should perform a valuation whenever the employer adopts a retiree benefit plan for some or all employees.
- An employer should perform a valuation whenever the employer considers or implements changes to retiree benefit provisions or eligibility requirements.
- An employer should perform a valuation whenever the employer introduces or changes retiree contributions.

We recommend Antelope Valley CCD take the following actions to ease future valuations.

- We have used our training, experience and information available to us to establish the actuarial assumptions used in this valuation. We have no information to indicate that any of the assumptions do not reasonably reflect future plan experience. However, the District should review the actuarial assumptions in Appendix C carefully. If the District has any reason to believe that any of these assumptions do not reasonably represent the expected future experience of the retiree health plan, the District should engage in discussions or perform analyses to determine the best estimate of the assumption in question.

PART VI: APPENDICES

APPENDIX A: MATERIALS USED FOR THIS STUDY

We relied on the following materials to complete this study.

- We used paper reports and digital files containing employee demographic data from the District personnel records.

- We used relevant sections of collective bargaining agreements provided by the District.

APPENDIX B: EFFECT OF ASSUMPTIONS USED IN CALCULATIONS

While we believe the estimates in this study are reasonable overall, it was necessary for us to use assumptions which inevitably introduce errors. We believe that the errors caused by our assumptions will not materially affect study results. If the District wants more refined estimates for decision-making, we recommend additional investigation. Following is a brief summary of the impact of some of the more critical assumptions.

1. Where actuarial assumptions differ from expected experience, our estimates could be overstated or understated. One of the most critical assumptions is the medical trend rate. The District may want to commission further study to assess the sensitivity of liability estimates to our medical trend assumptions. For example, it may be helpful to know how liabilities would be affected by using a trend factor 1% higher than what was used in this study. There is an additional fee required to calculate the impact of alternative trend assumptions.

2. We used an "entry age normal" actuarial cost method to estimate the actuarial accrued liability and normal cost. GASB allows this as one of several permissible methods under GASB45. Using a different cost method could result in a somewhat different recognition pattern of costs and liabilities.

APPENDIX C: ACTUARIAL ASSUMPTIONS AND METHODS

Following is a summary of actuarial assumptions and methods used in this study. The District should carefully review these assumptions and methods to make sure they reflect the District's assessment of its underlying experience. It is important for Antelope Valley CCD to understand that the appropriateness of all selected actuarial assumptions and methods are Antelope Valley CCD's responsibility. Unless otherwise disclosed in this report, TCS believes that all methods and assumptions are within a reasonable range based on the provisions of GASB 43 and 45, applicable actuarial standards of practice, Antelope Valley CCD's actual historical experience, and TCS's judgment based on experience and training.

ACTUARIAL METHODS AND ASSUMPTIONS:

ACTUARIAL COST METHOD: Entry age normal. The allocation of OPEB cost is based on years of service. We used the level percentage of payroll method to allocate OPEB cost over years of service.

Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The present value of future benefits and present value of future normal costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the normal cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

AMORTIZATION METHODS: We used a level percent, closed 30 year amortization period for the initial UAAL. We used a level percent, open 25 year amortization period for any residual UAAL.

SUBSTANTIVE PLAN: As required under GASB 43 and 45, we based the valuation on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by Antelope Valley CCD regarding practices with respect to employer and employee contributions and other relevant factors.

ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

INFLATION: We assumed 2.75% per year.

INVESTMENT RETURN / DISCOUNT RATE: We assumed 4.5% per year. This is based on assumed long-term return on employer assets.. We used the "Building Block Method" as described in ASOP 27 Paragraph 3.6.2. Our assessment of long-term returns for employer assets is based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq.

TREND: We assumed 4% per year. Our long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

PAYROLL INCREASE: We assumed 2.75% per year. This assumption applies only to the extent that either or both of the normal cost and/or UAAL amortization use the level percentage of payroll method. For purposes of applying the level percentage of payroll method, payroll increase must not assume any increases in staff or merit increases.

ACTUARIAL VALUE OF PLAN ASSETS (AVA): There were no plan assets on the valuation date.

NON-ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 35 (ASOP 35).

MORTALITY

Employee Type	*Mortality Tables*
Certificated	2009 CalSTRS Mortality
Classified	2014 CalPERS Active Mortality for Miscellaneous Employees

RETIREMENT RATES

Employee Type	*Retirement Rate Tables*
Certificated	2009 CalSTRS Retirement Rates
Classified	Hired < 1/1/13: 2009 CalPERS Retirement Rates for School Employees Hired after 12/31/2012: 2009 CalPERS Retirement Rates for Miscellaneous Employees 2%@60 adjusted to minimum retirement age of 52

VESTING RATES

Employee Type	*Vesting Rate Tables*
Certificated	100% at 10 Years of Service
Classified	100% at 10 Years of Service

COSTS FOR RETIREE COVERAGE

Retiree liabilities are based on actual retiree costs plus an implicit rate subsidy of 14.3% of non-Medicare premium. Liabilities for active participants are based on the first year costs shown below which include the implicit rate subsidy. Subsequent years' costs are based on first year costs adjusted for trend and limited by any District contribution caps.

Employee Type	*Future Retirees Pre-65*	*Future Retirees Post-65*
Certificated	$21,569	
Certificated Management	$14,298	
Classified	$13,762	
Classified Management	$13,762	

PARTICIPATION RATES

Employee Type	*<65 Non-Medicare Participation %*	*65+ Medicare Participation %*
Certificated	100%	
Classified	100%	

TURNOVER

Employee Type	*Turnover Rate Tables*
Certificated	2009 CalSTRS Termination Rates
Classified	2009 CalPERS Termination Rates for School Employees

SPOUSE PREVALENCE

To the extent not provided and when needed to calculate benefit liabilities, 80% of retirees assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

SPOUSE AGES

To the extent spouse dates of birth are not provided and when needed to calculate benefit liabilities, female spouse assumed to be three years younger than male.

AGING FACTORS

Attained Age	*Medical Annual Increases*
50-64	3.5%
65-69	3.0%
70-74	2.5%
75-79	1.5%
80-84	0.5%
85+	0.0%

APPENDIX D: DISTRIBUTION OF ELIGIBLE PARTICIPANTS BY AGE

ELIGIBLE ACTIVE EMPLOYEES

Age	*Total*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Under 25	2	0	0	2	0
25-29	8	0	0	8	0
30-34	33	0	6	24	3
35-39	50	3	10	35	2
40-44	45	0	18	23	4
45-49	50	1	23	22	4
50-54	72	2	29	37	4
55-59	75	6	34	32	3
60-64	46	2	24	16	4
65 and older	0	0	0	0	0
Total	381	14	144	199	24

ELIGIBLE RETIREES

Age	*Total*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Under 50	0	0	0	0	0
50-54	0	0	0	0	0
55-59	0	0	0	0	0
60-64	24	2	9	9	4
65-69	0	0	0	0	0
70-74	0	0	0	0	0
75-79	0	0	0	0	0
80-84	1	0	0	0	1
85-89	0	0	0	0	0
90 and older	1	0	0	0	1
Total	26	2	9	9	6

APPENDIX E: CALCULATION OF GASB 43/45 ACCOUNTING ENTRIES

This report is to be used to calculate accounting entries rather than to provide the dollar amount of accounting entries. How the report is to be used to calculate accounting entries depends on several factors. Among them are:

1) The amount of prior accounting entries;

2) Whether individual components of the ARC are calculated as a level dollar amount or as a level percentage of payroll;

3) Whether the employer using a level percentage of payroll method elects to use for this purpose projected payroll, budgeted payroll or actual payroll;

4) Whether the employer chooses to adjust the numbers in the report to reflect the difference between the valuation date and the first fiscal year for which the numbers will be used.

To the extent the level percentage of payroll method is used, the employer should adjust the numbers in this report as appropriate to reflect the change in OPEB covered payroll. It should be noted that OPEB covered payroll should only reflect types of pay generating pension credits for plan participants. Please note that plan participants do not necessarily include all active employees eligible for health benefits for several reasons. Following are examples.

1) The number of hours worked or other eligibility criteria may differ for OPEB compared to active health benefits;

2) There may be active employees over the maximum age OPEB are paid through. For example, if an OPEB plan pays benefits only to Medicare age, any active employees currently over Medicare age are not plan participants;

3) Employees hired at an age where they will exceed the maximum age for benefits when the service requirement is met are also not plan participants.

Finally, GASB 43 and 45 require reporting covered payroll in RSI schedules regardless of whether any ARC component is based on the level percentage of payroll method. This report does not provide, nor should the actuary be relied on to report covered payroll.

GASB 45 Paragraph 26 specifies that the items presented as RSI "should be calculated in accordance with the parameters." The RSI items refer to Paragraph 25.c which includes annual covered payroll. Footnote 3 provides that when the ARC is based on covered payroll, the payroll measure may be the projected payroll, budgeted payroll or actual payroll. Footnote 3 further provides that comparisons between the ARC and contributions should be based on the same measure of covered payroll.

At the time the valuation is being done, the actuary may not know which payroll method will be used for reporting purposes. The actuary may not even know for which period the valuation will be used to determine the ARC. Furthermore, the actuary doesn't know if the client will make adjustments to the ARC in order to use it for the first year of the biennial or triennial period. (GASB 45 is silent on this.) Even if the actuary were to know all of these things, it would be a rare situation that would result in knowing the appropriate covered payroll number to report. For example, if the employer uses actual payroll, that number would not be known at the time the valuation is done.

As a result, we believe the proper approach is to report the ARC components as a dollar amount. It is the client's responsibility to turn this number into a percentage of payroll factor by using the dollar amount of the ARC (adjusted, if desired) as a numerator and then calculating the appropriate amount of the denominator based on the payroll determination method elected by the client for the appropriate fiscal year.

If we have been provided with payroll information, we are happy to use that information to help the employer develop an estimate of covered payroll for reporting purposes. However, the validity of the covered payroll remains the employer’s responsibility even if TCS assists the employer in calculating it.

APPENDIX F: GLOSSARY OF RETIREE HEALTH VALUATION TERMS

Note: The following definitions are intended to help a *non*-actuary understand concepts related to retiree health valuations. Therefore, the definitions may not be actuarially accurate.

Actuarial Accrued Liability: The amount of the actuarial present value of total projected benefits attributable to employees' past service based on the actuarial cost method used.

Actuarial Cost Method: A mathematical model for allocating OPEB costs by year of service.

Actuarial Present Value of Total Projected Benefits: The projected amount of all OPEB benefits to be paid to current and future retirees discounted back to the valuation date.

Actuarial Value of Assets: Market-related value of assets which may include an unbiased formula for smoothing cyclical fluctuations in asset values.

Annual OPEB Cost: This is the amount employers must recognize as an expense each year. The annual OPEB expense is equal to the Annual Required Contribution plus interest on the Net OPEB obligation minus an adjustment to reflect the amortization of the net OPEB obligation.

Annual Required Contribution: The sum of the normal cost and an amount to amortize the unfunded actuarial accrued liability. This is the basis of the annual OPEB cost and net OPEB obligation.

Closed Amortization Period: An amortization approach where the original ending date for the amortization period remains the same. This would be similar to a conventional, 30-year mortgage, for example.

Discount Rate: Assumed investment return net of all investment expenses. Generally, a higher assumed interest rate leads to lower normal costs and actuarial accrued liability.

Implicit Rate Subsidy: The estimated amount by which retiree rates are understated in situations where, for rating purposes, retirees are combined with active employees.

Mortality Rate: Assumed proportion of people who die each year. Mortality rates always vary by age and often by sex. A mortality table should always be selected that is based on a similar "population" to the one being studied.

Net OPEB Obligation: The accumulated difference between the annual OPEB cost and amounts contributed to an irrevocable trust exclusively providing retiree OPEB benefits and protected from creditors.

Normal Cost: The dollar value of the "earned" portion of retiree health benefits if retiree health benefits are to be fully accrued at retirement.

OPEB Benefits: Other PostEmployment Benefits. Generally medical, dental, prescription drug, life, long-term care or other postemployment benefits that are not pension benefits.

Open Amortization Period: Under an open amortization period, the remaining unamortized balance is subject to a new amortization schedule each valuation. This would be similar, for example, to a homeowner refinancing a mortgage with a new 30-year conventional mortgage every two or three years.

Participation Rate: The proportion of retirees who elect to receive retiree benefits. A lower participation rate results in lower normal cost and actuarial accrued liability. The participation rate often is related to retiree contributions.

Retirement Rate: The proportion of active employees who retire each year. Retirement rates are usually based on age and/or length of service. (Retirement rates can be used in conjunction with vesting rates to reflect both age and length of service). The more likely employees are to retire early, the higher normal costs and actuarial accrued liability will be.

Transition Obligation: The amount of the unfunded actuarial accrued liability at the time actuarial accrual begins in accordance with an applicable accounting standard.

Trend Rate: The rate at which the cost of retiree benefits is expected to increase over time. The trend rate usually varies by type of benefit (e.g. medical, dental, vision, etc.) and may vary over time. A higher trend rate results in higher normal costs and actuarial accrued liability.

Turnover Rate: The rate at which employees cease employment due to reasons other than death, disability or retirement. Turnover rates usually vary based on length of service and may vary by other factors. Higher turnover rates reduce normal costs and actuarial accrued liability.

Unfunded Actuarial Accrued Liability: This is the excess of the actuarial accrued liability over assets irrevocably committed to provide retiree health benefits.

Valuation Date: The date as of which the OPEB obligation is determined. Under GASB 43 and 45, the valuation date does not have to coincide with the statement date.

Vesting Rate: The proportion of retiree benefits earned, based on length of service and, sometimes, age. (Vesting rates are often set in conjunction with retirement rates.) More rapid vesting increases normal costs and actuarial accrued liability.

Antelope Valley College
Actuarial Study of
Retiree Health Liabilities
As of July 1, 2015

Prepared by:
Total Compensation Systems, Inc.

Date: January 19, 2016

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Antelope Valley College
Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

Antelope Valley College engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program as of July 1, 2015 (the valuation date). The numbers in this report are based on the assumption that they will first be used to determine accounting entries for the fiscal year ending June 30, 2015. If the report will first be used for a different fiscal year, the numbers will need to be adjusted accordingly.

This report does not reflect any cash benefits paid unless the retiree is required to provide proof that the cash benefits are used to reimburse the retiree’s cost of health benefits. Costs and liabilities attributable to cash benefits paid to retirees are reportable under Governmental Accounting Standards Board (GASB) Standards 25/27.

This actuarial study is intended to serve the following purposes:

- To provide information to enable Antelope Valley CCD to manage the costs and liabilities associated with its retiree health benefits.

- To provide information to enable Antelope Valley CCD to communicate the financial implications of retiree health benefits to internal financial staff, the Board, employee groups and other affected parties.

- To provide information needed to comply with Governmental Accounting Standards Board Accounting Standards 43 and 45 related to "other postemployment benefits" (OPEB's).

Because this report was prepared in compliance with GASB 43 and 45, as appropriate, Antelope Valley CCD should not use this report for any other purpose without discussion with TCS. This means that any discussions with employee groups, governing Boards, etc. should be restricted to the implications of GASB 43 and 45 compliance.

This actuarial report includes several estimates for Antelope Valley CCD's retiree health program. In addition to the tables included in this report, we also performed cash flow adequacy tests as required under Actuarial Standard of Practice 6 (ASOP 6). Our cash flow adequacy testing covers a twenty-year period. We would be happy to make this cash flow adequacy test available to Antelope Valley CCD in spreadsheet format upon request.

We calculated the following estimates separately for active employees and retirees. As requested, we also separated results by the following employee classifications: Certificated Management, Certificated, Classified and Classified Management. We estimated the following:

- the total liability created. (The actuarial present value of total projected benefits or APVTPB)

- the ten year "pay-as-you-go" cost to provide these benefits.

- the "actuarial accrued liability (AAL)." (The AAL is the portion of the APVTPB attributable to employees’ service prior to the valuation date.)

- the amount necessary to amortize the UAAL over a period of 25 years.

- the annual contribution required to fund retiree benefits over the working lifetime of eligible employees (the "normal cost").

- The Annual Required Contribution (ARC) which is the basis of calculating the annual OPEB cost and net OPEB obligation under GASB 43 and 45.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this information beyond brief tests for reasonableness and consistency.

All cost and liability figures contained in this study are estimates of future results. Future results can vary dramatically and the accuracy of estimates contained in this report depends on the actuarial assumptions used. Normal costs and liabilities could easily vary by 10 - 20% or more from estimates contained in this report.

B. General Findings

We estimate the "pay-as-you-go" cost of providing retiree health benefits in the year beginning July 1, 2015 to be $482,158 (see Section IV.A.). The “pay-as-you-go” cost is the cost of benefits for current retirees.

For current employees, the value of benefits "accrued" in the year beginning July 1, 2015 (the normal cost) is $660,860. This normal cost would increase each year based on covered payroll. Had Antelope Valley CCD begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. We estimate the amount that would have accumulated to be $9,093,980. This amount is called the "actuarial accrued liability” (AAL). The remaining unamortized balance of the initial unfunded AAL (UAAL) is $6,265,782. This leaves a “residual” AAL of $2,828,198.

Antelope Valley CCD has established a GASB 43 trust for future OPEB benefits. The actuarial value of plan assets at June 30, 2015 was $387,846. This leaves a residual unfunded actuarial accrued liability (UAAL) of $2,440,352. We calculated the annual cost to amortize the residual unfunded actuarial accrued liability using a 6.5% discount rate. We used an open 25 year amortization period. The current year cost to amortize the residual unfunded actuarial accrued liability is $150,481.

Combining the normal cost with both the initial and residual UAAL amortization costs produces an annual required contribution (ARC) of $1,190,259. The ARC is used as the basis for determining expenses and liabilities under GASB 43/45. The ARC is used in lieu of (rather than in addition to) the “pay-as-you-go” cost.

Costs and liabilities are higher than would normally be expected for the following reasons:

1) The new Actuarial Standard of Practice 6 (ASOP 6) requires valuing an “implicit rate subsidy” reflecting that non-Medicare retiree rates are not set at a self-sustaining level. The difference between retiree premiums and self-sustaining premiums is called an “implicit rate subsidy” and is valued as an employer cost.
2) We reduced the amortization period for the “residual” AAL to align it with the remaining amortization period for the initial UAAL. This increases the ARC slightly.
3) We reduced the long term inflation assumption from 3% to 2.75% to be more consistent with pension assumptions. This affects the valuation only to the extent other economic assumptions are not changed accordingly. The overall impact is to increase the AAL and ARC somewhat.

We based all of the above estimates on employees as of June, 2015. Over time, liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees.

C. Description of Retiree Benefits

Following is a description of the current retiree benefit plan:

	Faculty	Classified	Management
Benefit types provided	Medical, dental, vision and life	Medical, dental, vision and life	Medical, dental, vision and life
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	10 years*	10 years*	10 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
College Contribution %	100%	100%	100%
College Cap	Active cap	Active cap	Active cap

*8 years with the District, last five in regular employment

D. Recommendations

It is outside the scope of this report to make specific recommendations of actions Antelope Valley CCD should take to manage the substantial liability created by the current retiree health program. Total Compensation Systems, Inc. can assist in identifying and evaluating options once this report has been studied. The following recommendations are intended only to allow the District to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of Antelope Valley CCD's practices, it is possible that Antelope Valley CCD is already complying with some or all of our recommendations.

- We recommend that Antelope Valley CCD inventory all benefits and services provided to retirees – whether contractually or not and whether retiree-paid or not. For each, Antelope Valley CCD should determine whether the benefit is material and subject to GASB 43 and/or 45.

- We recommend that Antelope Valley CCD conduct a study whenever events or contemplated actions significantly affect present or future liabilities, but no less frequently than every two years, as required under GASB 43/45.

- We recommend that the District communicate the magnitude of these costs to employees and include employees in discussions of options to control the costs.

- Under GASB 45, it is important to isolate the cost of retiree health benefits. Antelope Valley CCD should have all premiums, claims and expenses for retirees separated from active employee premiums, claims, expenses, etc. To the extent any retiree benefits are made available to retirees over the age of 65 – ***even on a retiree-pay-all basis*** – all premiums, claims and expenses for post-65 retiree coverage should be segregated from those for pre-65 coverage. Furthermore, Antelope Valley CCD should arrange for the rates or prices of all retiree benefits to be set on what is expected to be a self-sustaining basis.

- Antelope Valley CCD should establish a way of designating employees as eligible or ineligible for future OPEB benefits. Ineligible employees can include those in ineligible job classes; those hired after a designated date restricting eligibility; those who, due to their age at hire cannot qualify for District-paid OPEB benefits; employees who exceed the termination age for OPEB benefits, etc.

- Several assumptions were made in estimating costs and liabilities under Antelope Valley CCD's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, Antelope Valley CCD should maintain a retiree database that includes – in addition to date of birth, gender and employee classification – retirement date and (if applicable) dependent date of birth, relationship and gender. It will also be helpful for Antelope Valley CCD to maintain employment termination information – namely, the number of OPEB-eligible employees in each employee class that terminate employment each year for reasons other than death, disability or retirement.

Respectfully submitted,

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PART II: BACKGROUND

A. Summary

Accounting principles provide that the cost of retiree benefits should be "accrued" over employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in 2004 Accounting Standards 43 and 45 for retiree health benefits. These standards apply to all public employers that pay any part of the cost of retiree health benefits for current or future retirees (including early retirees).

B. Actuarial Accrual

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. There are many different ways to determine the annual accrual amount. The calculation method used is called an "actuarial cost method."

Under most actuarial cost methods, there are two components of actuarial cost - a "normal cost" and amortization of something called the "unfunded actuarial accrued liability." Both accounting standards and actuarial standards usually address these two components separately (though alternative terminology is sometimes used).

The normal cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. This report will not discuss differences between actuarial cost methods or their application. Instead, following is a description of a commonly used, generally accepted actuarial cost method permitted under GASB 43 and 45. This actuarial cost method is called the "entry age normal" method.

Under the entry age normal cost method, the actuary determines the annual amount needing to be expensed from hire until retirement to fully accrue the cost of retiree health benefits. This amount is the normal cost. Under GASB 43 and 45, normal cost can be expressed either as a level dollar amount or a level percentage of payroll.

The normal cost is determined using several key assumptions:

- The current ***cost of retiree health benefits*** (often varying by age, Medicare status and/or dependent coverage). The higher the current cost of retiree benefits, the higher the normal cost.
- The ***"trend" rate*** at which retiree health benefits are expected to increase over time. A higher trend rate increases the normal cost. A "cap" on District contributions can reduce trend to zero once the cap is reached thereby dramatically reducing normal costs.
- ***Mortality rates*** varying by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce normal costs, the mortality assumption is not likely to vary from employer to employer.
- ***Employment termination rates*** have the same effect as mortality inasmuch as higher termination rates reduce normal costs. Employment termination can vary considerably between public agencies.
- The ***service requirement*** reflects years of service required to earn full or partial retiree benefits.

While a longer service requirement reduces costs, cost reductions are not usually substantial unless the service period exceeds 20 years of service.

- ***Retirement rates*** determine what proportion of employees retire at each age (assuming employees reach the requisite length of service). Retirement rates often vary by employee classification and implicitly reflect the minimum retirement age required for eligibility. Retirement rates also depend on the amount of pension benefits available. Higher retirement rates increase normal costs but, except for differences in minimum retirement age, retirement rates tend to be consistent between public agencies for each employee type.

- ***Participation rates*** indicate what proportion of retirees are expected to elect retiree health benefits if a significant retiree contribution is required. Higher participation rates increase costs.

- The ***discount rate*** estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets. For example, employer funds earning money market rates in the county treasury are likely to earn far less than an irrevocable trust containing a diversified asset portfolio including stocks, bonds, etc. A higher discount rate can dramatically lower normal costs. GASB 43 and 45 require the interest assumption to reflect likely *long term* investment return.

The assumptions listed above are not exhaustive, but are the most common assumptions used in actuarial cost calculations. The actuary selects the assumptions which - taken together - will yield reasonable results. It's not necessary (or even possible) to predict individual assumptions with complete accuracy.

If all actuarial assumptions are exactly met and an employer expensed the normal cost every year for all past and current employees and retirees, a sizeable liability would have accumulated (after adding interest and subtracting retiree benefit costs). The liability that would have accumulated is called the actuarial accrued liability or AAL. The excess of AAL over the ***actuarial value of plan assets*** is called the *unfunded* actuarial accrued liability (or UAAL). Under GASB 43 and 45, in order for assets to count toward offsetting the AAL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The actuarial accrued liability (AAL) can arise in several ways. At inception of GASB 43 and 45, there is usually a substantial UAAL. Some portion of this amount can be established as the "transition obligation" subject to certain constraints. UAAL can also increase as the result of operation of a retiree health plan - e.g., as a result of plan changes or changes in actuarial assumptions. Finally, AAL can arise from actuarial gains and losses. Actuarial gains and losses result from differences between actuarial assumptions and actual plan experience.

Under GASB 43 and 45, employers have several options on how the UAAL can be amortized as follows:

- The employer can select an amortization period of 1 to 30 years. (For certain situations that result in a reduction of the AAL, the amortization period must be at least 10 years.)

- The employer may apply the same amortization period to the total combined UAAL or can apply different periods to different components of the UAAL.

- The employer may elect a "closed" or "open" amortization period.

- The employer may choose to amortize on a level dollar or level percentage of payroll method.

PART III: LIABILITIES AND COSTS FOR RETIREE BENEFITS

A. Introduction.

We calculated the actuarial present value of projected benefits (APVPB) separately for each employee. We determined eligibility for retiree benefits based on information supplied by Antelope Valley CCD. We then selected assumptions for the factors discussed in the above Section that, based on plan experience and our training and experience, represent our best prediction of future plan experience. For each employee, we applied the appropriate factors based on the employee's age, sex and length of service.

We summarized actuarial assumptions used for this study in Appendix C.

B. Medicare

The extent of Medicare coverage can affect projections of retiree health costs. The method of coordinating Medicare benefits with the retiree health plan's benefits can have a substantial impact on retiree health costs. We will be happy to provide more information about Medicare integration methods if requested.

C. Liability for Retiree Benefits.

For each employee, we projected future premium costs using an assumed trend rate (see Appendix C). To the extent Antelope Valley CCD uses contribution caps, the influence of the trend factor is further reduced.

We multiplied each year's projected cost by the probability that premium will be paid; i.e. based on the probability that the employee is living, has not terminated employment and has retired. The probability that premium will be paid is zero if the employee is not eligible. The employee is not eligible if s/he has not met minimum service, minimum age or, if applicable, maximum age requirements.

The product of each year's premium cost and the probability that premium will be paid equals the expected cost for that year. We discounted the expected cost for each year to the valuation date July 1, 2015 at 6.5% interest.

Finally, we multiplied the above discounted expected cost figures by the probability that the retiree would elect coverage. A retiree may not elect to be covered if retiree health coverage is available less expensively from another source (e.g. Medicare risk contract) or the retiree is covered under a spouse's plan.

For any current retirees, the approach used was similar. The major difference is that the probability of payment for current retirees depends only on mortality and age restrictions (i.e. for retired employees the probability of being retired and of not being terminated are always both 1.0000).

We added the APVPB for all employees to get the actuarial present value of total projected benefits (APVTPB). The APVTPB is the estimated present value of all future retiree health benefits for all **current** employees and retirees. The APVTPB is the amount on July 1, 2015 that, if all actuarial assumptions are exactly right, would be sufficient to expense all promised benefits until the last current employee or retiree dies or reaches the maximum eligibility age.

Actuarial Present Value of Total Projected Benefits at July 1, 2015

	Total	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Active: Pre-65	$12,785,869	$272,074	$6,971,514	$4,968,628	$573,653
Post-65	$0	$0	$0	$0	$0
Subtotal	$12,785,869	$272,074	$6,971,514	$4,968,628	$573,653
Retiree: Pre-65	$713,063	$42,504	$337,506	$200,351	$132,702
Post-65	$56,562	$0	$0	$0	$56,562
Subtotal	$769,625	$42,504	$337,506	$200,351	$189,264
Grand Total	$13,555,494	$314,578	$7,309,020	$5,168,979	$762,917
Subtotal Pre-65	$13,498,932	$314,578	$7,309,020	$5,168,979	$706,355
Subtotal Post-65	$56,562	$0	$0	$0	$56,562

The APVTPB should be accrued over the working lifetime of employees. At any time much of it has not been "earned" by employees. The APVTPB is used to develop expense and liability figures. To do so, the APVTFB is divided into two parts: the portions attributable to service rendered prior to the valuation date (the past service liability or actuarial accrued liability under GASB 43 and 45) and to service after the valuation date but prior to retirement (the future service liability).

The past service and future service liabilities are each funded in a different way. We will start with the future service liability which is funded by the normal cost.

D. Cost to Prefund Retiree Benefits

1. Normal Cost

The average hire age for eligible employees is 37. To accrue the liability by retirement, the District would accrue the retiree liability over a period of about 24 years (assuming an average retirement age of 61). We applied an "entry age normal" actuarial cost method to determine funding rates for active employees. The table below summarizes the calculated normal cost.

Normal Cost Year Beginning July 1, 2015

	Total	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
# of Employees	381	14	144	199	24
Per Capita Normal Cost					
Pre-65 Benefit	N/A	$1,538	$2,426	$1,264	$1,602
Post-65 Benefit	N/A	$0	$0	$0	$0
First Year Normal Cost					
Pre-65 Benefit	$660,860	$21,532	$349,344	$251,536	$38,448
Post-65 Benefit	$0	$0	$0	$0	$0
Total	$660,860	$21,532	$349,344	$251,536	$38,448

Accruing retiree health benefit costs using normal costs levels out the cost of retiree health benefits over time and more fairly reflects the value of benefits "earned" each year by employees. This normal cost would increase each year based on covered payroll.

2. Amortization of Unfunded Actuarial Accrued Liability (UAAL)

If actuarial assumptions are borne out by experience, the District will fully accrue retiree benefits by expensing an amount each year that equals the normal cost. If no accruals had taken place in the past, there would be a shortfall of many years' accruals, accumulated interest and forfeitures for terminated or deceased employees. This shortfall is called the actuarial accrued liability (AAL). We calculated the AAL as the APVTPB minus the present value of future normal costs.

The initial UAAL was amortized using level percent, closed 30 year amortization. The District can amortize the remaining or residual UAAL over many years. The table below shows the annual amount necessary to amortize the UAAL over a period of 25 years at 6.5% interest. (Thirty years is the longest amortization period allowable under GASB 43 and 45.) GASB 43 and 45 allow amortizing the UAAL using either payments that stay the same as a dollar amount, or payments that are a flat percentage of covered payroll over time. The figures below reflect level percent, open 25 year amortization.

Actuarial Accrued Liability as of July 1, 2015

	Total	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Active: Pre-65	$8,324,355	$154,534	$4,732,332	$3,131,827	$305,662
Post-65	$0	$0	$0	$0	$0
Subtotal	$8,324,355	$154,534	$4,732,332	$3,131,827	$305,662
Retiree: Pre-65	$713,063	$42,504	$337,506	$200,351	$132,702
Post-65	$56,562	$0	$0	$0	$56,562
Subtotal	$769,625	$42,504	$337,506	$200,351	$189,264
Subtot Pre-65	$9,037,418	$197,038	$5,069,838	$3,332,178	$438,364
Subtot Post-65	$56,562	$0	$0	$0	$56,562
Grand Total	$9,093,980	$197,038	$5,069,838	$3,332,178	$494,926
Unamortized Initial UAAL	$6,265,782				
Plan assets at 6/30/15	$387,846				
Residual UAAL	$2,440,352				
Residual UAAL Amortization at 6.5% over 25 Years	$150,481				

3. Annual Required Contributions (ARC)

If the District determines retiree health plan expenses in accordance with GASB 43 and 45, costs include both normal cost and one or more components of UAAL amortization costs. The sum of normal cost and UAAL amortization costs is called the Annual Required Contribution (ARC) and is shown below.

Annual Required Contribution (ARC) Year Beginning July 1, 2015

	Total
Normal Cost	$660,860
Initial UAAL Amortization	$378,918
Residual UAAL Amortization	$150,481
ARC	$1,190,259

The normal cost remains as long as there are active employees who may some day qualify for District-paid retiree health benefits. This normal cost would increase each year based on covered payroll.

4. Other Components of Annual OPEB Cost (AOC)

Expense and liability amounts may include more components of cost than the normal cost plus amortization of the UAAL. This applies to employers that don't fully fund the Annual Required Contribution (ARC) through an irrevocable trust.

- The annual OPEB cost (AOC) includes assumed interest on the net OPEB obligation (NOO). The annual OPEB cost also includes an amortization adjustment for the net OPEB obligation. (It should be noted that there is no NOO if the ARC is fully funded through a qualifying "plan".)

- The net OPEB obligation equals the accumulated differences between the (AOC) and qualifying "plan" contributions.

PART IV: "PAY AS YOU GO" FUNDING OF RETIREE BENEFITS

We used the actuarial assumptions shown in Appendix C to project ten year cash flow under the retiree health program. Because these cash flow estimates reflect average assumptions applied to a relatively small number of employees, estimates for individual years are **certain** to be ***in***accurate. However, these estimates show the size of cash outflow.

The following table shows a projection of annual amounts needed to pay the District share of retiree health premiums.

Year Beginning July 1	*Total*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
2015	$482,158	$33,929	$259,983	$119,791	$68,455
2016	$480,748	$25,478	$264,251	$131,421	$59,598
2017	$638,705	$13,056	$377,926	$199,277	$48,446
2018	$791,776	$21,026	$459,407	$275,459	$35,884
2019	$823,781	$29,007	$489,227	$279,422	$26,125
2020	$982,487	$36,238	$564,694	$346,846	$34,709
2021	$1,062,298	$26,776	$621,648	$369,725	$44,149
2022	$1,059,605	$27,247	$532,391	$441,144	$58,823
2023	$1,095,163	$23,307	$506,459	$493,313	$72,084
2024	$1,075,908	$15,140	$532,778	$466,007	$61,983

PART V: RECOMMENDATIONS FOR FUTURE VALUATIONS

To effectively manage benefit costs, an employer must periodically examine the existing liability for retiree benefits as well as future annual expected premium costs. GASB 43/45 require biennial valuations. In addition, a valuation should be conducted whenever plan changes, changes in actuarial assumptions or other employer actions are likely to cause a material change in accrual costs and/or liabilities.

Following are examples of actions that could trigger a new valuation.

- An employer should perform a valuation whenever the employer considers or puts in place an early retirement incentive program.
- An employer should perform a valuation whenever the employer adopts a retiree benefit plan for some or all employees.
- An employer should perform a valuation whenever the employer considers or implements changes to retiree benefit provisions or eligibility requirements.
- An employer should perform a valuation whenever the employer introduces or changes retiree contributions.

We recommend Antelope Valley CCD take the following actions to ease future valuations.

- We have used our training, experience and information available to us to establish the actuarial assumptions used in this valuation. We have no information to indicate that any of the assumptions do not reasonably reflect future plan experience. However, the District should review the actuarial assumptions in Appendix C carefully. If the District has any reason to believe that any of these assumptions do not reasonably represent the expected future experience of the retiree health plan, the District should engage in discussions or perform analyses to determine the best estimate of the assumption in question.

PART VI: APPENDICES

APPENDIX A: MATERIALS USED FOR THIS STUDY

We relied on the following materials to complete this study.

- We used paper reports and digital files containing employee demographic data from the District personnel records.

- We used relevant sections of collective bargaining agreements provided by the District.

APPENDIX B: EFFECT OF ASSUMPTIONS USED IN CALCULATIONS

While we believe the estimates in this study are reasonable overall, it was necessary for us to use assumptions which inevitably introduce errors. We believe that the errors caused by our assumptions will not materially affect study results. If the District wants more refined estimates for decision-making, we recommend additional investigation. Following is a brief summary of the impact of some of the more critical assumptions.

1. Where actuarial assumptions differ from expected experience, our estimates could be overstated or understated. One of the most critical assumptions is the medical trend rate. The District may want to commission further study to assess the sensitivity of liability estimates to our medical trend assumptions. For example, it may be helpful to know how liabilities would be affected by using a trend factor 1% higher than what was used in this study. There is an additional fee required to calculate the impact of alternative trend assumptions.

2. We used an "entry age normal" actuarial cost method to estimate the actuarial accrued liability and normal cost. GASB allows this as one of several permissible methods under GASB45. Using a different cost method could result in a somewhat different recognition pattern of costs and liabilities.

APPENDIX C: ACTUARIAL ASSUMPTIONS AND METHODS

Following is a summary of actuarial assumptions and methods used in this study. The District should carefully review these assumptions and methods to make sure they reflect the District's assessment of its underlying experience. It is important for Antelope Valley CCD to understand that the appropriateness of all selected actuarial assumptions and methods are Antelope Valley CCD's responsibility. Unless otherwise disclosed in this report, TCS believes that all methods and assumptions are within a reasonable range based on the provisions of GASB 43 and 45, applicable actuarial standards of practice, Antelope Valley CCD's actual historical experience, and TCS's judgment based on experience and training.

ACTUARIAL METHODS AND ASSUMPTIONS:

ACTUARIAL COST METHOD: Entry age normal. The allocation of OPEB cost is based on years of service. We used the level percentage of payroll method to allocate OPEB cost over years of service.

Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The present value of future benefits and present value of future normal costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the normal cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

AMORTIZATION METHODS: We used a level percent, closed 30 year amortization period for the initial UAAL. We used a level percent, open 25 year amortization period for any residual UAAL.

SUBSTANTIVE PLAN: As required under GASB 43 and 45, we based the valuation on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by Antelope Valley CCD regarding practices with respect to employer and employee contributions and other relevant factors.

ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

INFLATION: We assumed 2.75% per year.

INVESTMENT RETURN / DISCOUNT RATE: We assumed 6.5% per year. This is based on assumed long-term return on plan assets assuming 100% funding through Futuris. We used the "Building Block Method" as described in ASOP 27 Paragraph 3.6.2.

TREND: We assumed 4% per year. Our long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

PAYROLL INCREASE: We assumed 2.75% per year. This assumption applies only to the extent that either or both of the normal cost and/or UAAL amortization use the level percentage of payroll method. For purposes of applying the level percentage of payroll method, payroll increase must not assume any increases in staff or merit increases.

ACTUARIAL VALUE OF PLAN ASSETS (AVA): Because plan assets are primarily short term, we did not use a smoothing formula.

NON-ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 35 (ASOP 35).

MORTALITY

Employee Type	*Mortality Tables*
Certificated	2009 CalSTRS Mortality
Classified	2014 CalPERS Active Mortality for Miscellaneous Employees

RETIREMENT RATES

Employee Type	*Retirement Rate Tables*
Certificated	2009 CalSTRS Retirement Rates
Classified	Hired < 1/1/13: 2009 CalPERS Retirement Rates for School Employees Hired after 12/31/2012: 2009 CalPERS Retirement Rates for Miscellaneous Employees 2%@60 adjusted to minimum retirement age of 52

VESTING RATES

Employee Type	*Vesting Rate Tables*
Certificated	100% at 10 Years of Service
Classified	100% at 10 Years of Service

COSTS FOR RETIREE COVERAGE

Retiree liabilities are based on actual retiree costs plus an implicit rate subsidy of 14.3% of non-Medicare premium. Liabilities for active participants are based on the first year costs shown below which include the implicit rate subsidy. Subsequent years' costs are based on first year costs adjusted for trend and limited by any District contribution caps.

Employee Type	*Future Retirees Pre-65*	*Future Retirees Post-65*
Certificated	$21,569	
Certificated Management	$14,298	
Classified	$13,762	
Classified Management	$13,762	

PARTICIPATION RATES

Employee Type	*<65 Non-Medicare Participation %*	*65+ Medicare Participation %*
Certificated	100%	
Classified	100%	

TURNOVER

Employee Type	*Turnover Rate Tables*
Certificated	2009 CalSTRS Termination Rates
Classified	2009 CalPERS Termination Rates for School Employees

SPOUSE PREVALENCE

To the extent not provided and when needed to calculate benefit liabilities, 80% of retirees assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

SPOUSE AGES

To the extent spouse dates of birth are not provided and when needed to calculate benefit liabilities, female spouse assumed to be three years younger than male.

AGING FACTORS

Attained Age	*Medical Annual Increases*
50-64	3.5%
65-69	3.0%
70-74	2.5%
75-79	1.5%
80-84	0.5%
85+	0.0%

APPENDIX D: DISTRIBUTION OF ELIGIBLE PARTICIPANTS BY AGE

ELIGIBLE ACTIVE EMPLOYEES

Age	*Total*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Under 25	2	0	0	2	0
25-29	8	0	0	8	0
30-34	33	0	6	24	3
35-39	50	3	10	35	2
40-44	45	0	18	23	4
45-49	50	1	23	22	4
50-54	72	2	29	37	4
55-59	75	6	34	32	3
60-64	46	2	24	16	4
65 and older	0	0	0	0	0
Total	381	14	144	199	24

ELIGIBLE RETIREES

Age	*Total*	*Certificated Management*	*Certificated*	*Classified*	*Classified Management*
Under 50	0	0	0	0	0
50-54	0	0	0	0	0
55-59	0	0	0	0	0
60-64	24	2	9	9	4
65-69	0	0	0	0	0
70-74	0	0	0	0	0
75-79	0	0	0	0	0
80-84	1	0	0	0	1
85-89	0	0	0	0	0
90 and older	1	0	0	0	1
Total	26	2	9	9	6

APPENDIX E: CALCULATION OF GASB 43/45 ACCOUNTING ENTRIES

This report is to be used to calculate accounting entries rather than to provide the dollar amount of accounting entries. How the report is to be used to calculate accounting entries depends on several factors. Among them are:

1) The amount of prior accounting entries;

2) Whether individual components of the ARC are calculated as a level dollar amount or as a level percentage of payroll;

3) Whether the employer using a level percentage of payroll method elects to use for this purpose projected payroll, budgeted payroll or actual payroll;

4) Whether the employer chooses to adjust the numbers in the report to reflect the difference between the valuation date and the first fiscal year for which the numbers will be used.

To the extent the level percentage of payroll method is used, the employer should adjust the numbers in this report as appropriate to reflect the change in OPEB covered payroll. It should be noted that OPEB covered payroll should only reflect types of pay generating pension credits for plan participants. Please note that plan participants do not necessarily include all active employees eligible for health benefits for several reasons. Following are examples.

1) The number of hours worked or other eligibility criteria may differ for OPEB compared to active health benefits;

2) There may be active employees over the maximum age OPEB are paid through. For example, if an OPEB plan pays benefits only to Medicare age, any active employees currently over Medicare age are not plan participants;

3) Employees hired at an age where they will exceed the maximum age for benefits when the service requirement is met are also not plan participants.

Finally, GASB 43 and 45 require reporting covered payroll in RSI schedules regardless of whether any ARC component is based on the level percentage of payroll method. This report does not provide, nor should the actuary be relied on to report covered payroll.

GASB 45 Paragraph 26 specifies that the items presented as RSI "should be calculated in accordance with the parameters." The RSI items refer to Paragraph 25.c which includes annual covered payroll. Footnote 3 provides that when the ARC is based on covered payroll, the payroll measure may be the projected payroll, budgeted payroll or actual payroll. Footnote 3 further provides that comparisons between the ARC and contributions should be based on the same measure of covered payroll.

At the time the valuation is being done, the actuary may not know which payroll method will be used for reporting purposes. The actuary may not even know for which period the valuation will be used to determine the ARC. Furthermore, the actuary doesn't know if the client will make adjustments to the ARC in order to use it for the first year of the biennial or triennial period. (GASB 45 is silent on this.) Even if the actuary were to know all of these things, it would be a rare situation that would result in knowing the appropriate covered payroll number to report. For example, if the employer uses actual payroll, that number would not be known at the time the valuation is done.

As a result, we believe the proper approach is to report the ARC components as a dollar amount. It is the client's responsibility to turn this number into a percentage of payroll factor by using the dollar amount of the ARC (adjusted, if desired) as a numerator and then calculating the appropriate amount of the denominator based on the payroll determination method elected by the client for the appropriate fiscal year.

If we have been provided with payroll information, we are happy to use that information to help the employer develop an estimate of covered payroll for reporting purposes. However, the validity of the covered payroll remains the employer's responsibility even if TCS assists the employer in calculating it.

APPENDIX F: GLOSSARY OF RETIREE HEALTH VALUATION TERMS

Note: The following definitions are intended to help a *non*-actuary understand concepts related to retiree health valuations. Therefore, the definitions may not be actuarially accurate.

Actuarial Accrued Liability: The amount of the actuarial present value of total projected benefits attributable to employees' past service based on the actuarial cost method used.

Actuarial Cost Method: A mathematical model for allocating OPEB costs by year of service.

Actuarial Present Value of Total Projected Benefits: The projected amount of all OPEB benefits to be paid to current and future retirees discounted back to the valuation date.

Actuarial Value of Assets: Market-related value of assets which may include an unbiased formula for smoothing cyclical fluctuations in asset values.

Annual OPEB Cost: This is the amount employers must recognize as an expense each year. The annual OPEB expense is equal to the Annual Required Contribution plus interest on the Net OPEB obligation minus an adjustment to reflect the amortization of the net OPEB obligation.

Annual Required Contribution: The sum of the normal cost and an amount to amortize the unfunded actuarial accrued liability. This is the basis of the annual OPEB cost and net OPEB obligation.

Closed Amortization Period: An amortization approach where the original ending date for the amortization period remains the same. This would be similar to a conventional, 30-year mortgage, for example.

Discount Rate: Assumed investment return net of all investment expenses. Generally, a higher assumed interest rate leads to lower normal costs and actuarial accrued liability.

Implicit Rate Subsidy: The estimated amount by which retiree rates are understated in situations where, for rating purposes, retirees are combined with active employees.

Mortality Rate: Assumed proportion of people who die each year. Mortality rates always vary by age and often by sex. A mortality table should always be selected that is based on a similar "population" to the one being studied.

Net OPEB Obligation: The accumulated difference between the annual OPEB cost and amounts contributed to an irrevocable trust exclusively providing retiree OPEB benefits and protected from creditors.

Normal Cost: The dollar value of the "earned" portion of retiree health benefits if retiree health benefits are to be fully accrued at retirement.

<u>OPEB Benefits:</u>	Other PostEmployment Benefits. Generally medical, dental, prescription drug, life, long-term care or other postemployment benefits that are not pension benefits.
<u>Open Amortization Period:</u>	Under an open amortization period, the remaining unamortized balance is subject to a new amortization schedule each valuation. This would be similar, for example, to a homeowner refinancing a mortgage with a new 30-year conventional mortgage every two or three years.
<u>Participation Rate:</u>	The proportion of retirees who elect to receive retiree benefits. A lower participation rate results in lower normal cost and actuarial accrued liability. The participation rate often is related to retiree contributions.
<u>Retirement Rate:</u>	The proportion of active employees who retire each year. Retirement rates are usually based on age and/or length of service. (Retirement rates can be used in conjunction with vesting rates to reflect both age and length of service). The more likely employees are to retire early, the higher normal costs and actuarial accrued liability will be.
<u>Transition Obligation:</u>	The amount of the unfunded actuarial accrued liability at the time actuarial accrual begins in accordance with an applicable accounting standard.
<u>Trend Rate:</u>	The rate at which the cost of retiree benefits is expected to increase over time. The trend rate usually varies by type of benefit (e.g. medical, dental, vision, etc.) and may vary over time. A higher trend rate results in higher normal costs and actuarial accrued liability.
<u>Turnover Rate:</u>	The rate at which employees cease employment due to reasons other than death, disability or retirement. Turnover rates usually vary based on length of service and may vary by other factors. Higher turnover rates reduce normal costs and actuarial accrued liability.
<u>Unfunded Actuarial Accrued Liability</u>:	This is the excess of the actuarial accrued liability over assets irrevocably committed to provide retiree health benefits.
<u>Valuation Date:</u>	The date as of which the OPEB obligation is determined. Under GASB 43 and 45, the valuation date does not have to coincide with the statement date.
<u>Vesting Rate:</u>	The proportion of retiree benefits earned, based on length of service and, sometimes, age. (Vesting rates are often set in conjunction with retirement rates.) More rapid vesting increases normal costs and actuarial accrued liability.

ATELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	02/18/2016
Retirement Board of Authority			

SUBJECT:		ITEM #:	2015/2016-034
Status of the District's Current OPEB Trust Independent Auditor's Report		Enclosure:	Yes
		Action Item	No

Prepared by: Crowe Horwath, LLP

Requested by: Retirement Board of Authority

BACKGROUND:

The Independent Auditors Report provides the District's OPEB Trust with an independent third party compliance certification relative to GASB accounting standards, financial reporting for OPEB expenses, OPEB liabilities, Note disclosures and Required Supplemental Information (RSI).

STATUS:

The Retirement Board of Authority will review and discuss the status of the current Independent Auditor's certification relative to the District's OPEB Trust compliance with GASB 43/45 protocols and applicable Regulatory standards.

RECOMMENDATION:

The Retirement Board of Authority will accept the information provided and file accordingly.

ANTELOPE VALLEY
COMMUNITY COLLEGE DISTRICT

PUBLIC ENTITY INVESTMENT
TRUST FINANCIAL STATEMENTS
June 30, 2015

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
PUBLIC ENTITY INVESTMENT TRUST

FINANCIAL STATEMENTS
June 30, 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Antelope Valley Community College
Lancaster, California

Report on the Financial Statements

We have audited the accompanying financial statements of Antelope Valley Community College District Public Entity Investment Trust (the "Trust"), a fiduciary fund of Antelope Valley Community College District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Antelope Valley Community College District Public Entity Investment Trust, a fiduciary fund of Antelope Valley Community College District, as of June 30, 2015, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the District's Trust and do not purport to, and do not, present fairly the financial position of the Antelope Valley Community College District as of June 30, 2015, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages _ to _ and the Required Supplementary Information, such as the Schedule of Funding Progress and Schedule of Employer Contributions on pages __be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2016 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Trust. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance for the Trust. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Antelope Valley Community College District's internal control over financial reporting and compliance for the Trust.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
January 11, 2016

This section provides an overview and analysis of the financial activities of Antelope Valley Community College District Public Entity Investment Trust (the "Trust") for the fiscal year ended June 30, 2015. The Trust was established in 2015 by the District's Board of Trustees and assets held for other postemployment benefits. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in Antelope Valley Community College District's (the "District") financial statements.

FINANCIAL HIGHLIGHTS

The net position of the Trust at the close of fiscal year 2015 is $387,113 (net assets held in trust for retiree medical benefits). The net position is available to meet the Trust's ongoing obligations to participants and beneficiaries.

The Trust's funding objective is to meet long-term benefit obligations through contributions and investment income. The Trust was funded by the District in June 2015 by a transfer of $387,113 from its unrestricted general funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis are intended to serve as an introduction to the Trust's financial statements, which comprises these components:

1. Statement of Trust Net Position
2. Statement of Change in Trust Net Position
3. Notes to Financial Statements

The Statement of Trust Net Position is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The Statement of Change in Trust Net Position, on the other hand, provides a view of current year additions to and deductions from the Trust. Both statements are in compliance with Governmental Accounting Standards. These Standards require certain disclosures and require the state and local governments to report using the full accrual method of accounting. The Trust complies with all material requirements of these pronouncements.

The Statement of Trust Net Position and the Statement of Change in Trust Net Position report information about the Trust's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Trust's net position held in an irrevocable trust account for retirees' medical benefits. Net position, the difference between assets and liabilities, is one way to measure the Trust's financial position. Over time, increase and decrease in net position is one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Trust's overall health.

(Continued)

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Trust's progress in funding its obligations to provide retiree medical benefits to members.

FINANCIAL ANALYSIS

The only financial activity during the year ended June 30, 2015 was a contribution from the District into the Trust of $387,113 on June 29, 2015.

CONTACTING THE TRUST'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the Trust's finances and to show the Trust's accountability for the money it receives. If you have any questions about this report or need any additional financial information, contact the District at: Antelope Valley Community College District, 3041 W Avenue K, Lancaster, California 93536.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
PUBLIC ENTITY INVESTMENT TRUST
STATEMENT OF TRUST NET POSITION
June 30, 2015

ASSETS		
Investments:		
Mutual funds – equity	$	190,192
Mutual funds – fixed income		118,162
Mutual funds – other		78,759
Total assets		387,113
NET POSITION		
Net position held in trust for other postemployment benefits	$	387,113

See accompanying notes to financial statements.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
PUBLIC ENTITY INVESTMENT TRUST
STATEMENT OF CHANGE IN TRUST NET POSITION
For the Year Ended June 30, 2015

Addition:	
Employer contribution	$ 387,113
Net position held in trust for other postemployment benefits:	
Net position, July 1, 2014	-
Net position, June 30, 2015	$ 387,113

See accompanying notes to financial statements.

NOTE 1 – DESCRIPTION OF PLAN

The following information of the Antelope Valley Community College District Public Entity Investment Trust (the "Trust"), a fiduciary fund of the Antelope Valley Community College District (the "District"), provides only general information of the Trust's provisions. Readers should refer to the Trust agreement for a more complete description. These financial statements include only the resources of the Trust and are not intended to present fairly the financial position and results of operations of the District in compliance with accounting principles generally accepted in the United States of America.

General: The District administers the Trust, a contributory single-employer defined benefit healthcare plan through a third-party. The Trust provides postemployment medical, dental, vision and life insurance premiums to eligible retirees by paying member premiums. Benefit provisions are established and amended through contract negotiations with labor unions and must be approved by the District's Board of Trustees. Membership consists of 26 retirees currently eligible to receive benefits, and 381 eligible active plan members.

Contributions: Contributions to the Trust are funded entirely by the employer. The Trust was established and may be amended by the Retirement Board of Authority. On June 29, 2015, the District transferred $387,113 into the trust from unrestricted District funds. Contributions are not required and any additional contributions by the District would be discretionary. Retiree benefits and administrative expenses are funded from the contribution and investment earnings.

Funded Status and Funding Progress: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the Trust and the annual required contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of trust assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

As of July 1, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits at the time of the actuarial valuation date was $8,143,893 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $8,143,893. As of the last actuarial, the covered payroll (annual payroll of active employees covered by the Plan) was $25,432,000, and the ratio of the UAAL to the covered payroll was 32 percent.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is the expected long-term investment return on the employer's own assets calculated based on long-term historical returns for invested surplus funds, and an annual healthcare cost trend rate of 4 percent. Both rates include a 3 percent inflation assumption. The District's obligation was fully amortized as of June 30, 2010.

(Continued)

NOTE 1 – DESCRIPTION OF PLAN (Continued)

Investment Options: As appointed by the Retirement Board of Authority, Benefit Trust Company, the Asset Custodian, maintains the Trust's investments in various mutual funds, and is the record keeper and Morgan Stanley Wealth Management is the investment advisor. Funds allocated to the Asset Custodian are invested as directed by the Retirement Board of Authority in a combination of equity and fixed income investments.

Plan Termination: In the event of Plan termination, the net position of the Trust would be allocated as prescribed in the Trust agreement Section 11.2., generally to pay in the order indicated below:

- District's remaining retiree medical benefit liabilities.
- Reasonable expenses of administering the Trust.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The accompanying financial statements are presented on the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due, pursuant to formal commitments as well as statutory or contractual commitments. Retiree benefits are recognized when due and payable.

The financial statements of the Trust have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America. In the U.S. the Governmental Accounting Standards Board (GASB) is the established and recognized standard-setting body for governmental accounting and financial reporting. The financial statements have been prepared consistent with GASB Codification P50, *Postemployment Benefit Plans Other than Pension Plans.*

Investment Valuation: Investments are reported at fair value based upon market prices, when available, or estimates of fair value, and unrealized and realized gains and losses are included in the Statement of Change in Trust Net Position.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Trust to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(Continued)

NOTE 3 – INVESTMENTS

The Trust has adopted an internally developed investment policy that authorizes the use of a broad range of investment choices that have distinctly different risks and return characteristics. In general, investments held in the Trust are for the primary purpose of meeting present and future OPEB liability obligations and may be invested in accordance with California Government Code Sections 53600 through 53622 that, subject to applicable legal requirements, may provide greater latitude to increase purchasing power and capital growth potential if deemed prudent to do so. Generally the investment policy directs the Trust Custodian to invest the funds of the Trust in open-ended mutual funds consisting of fixed income and equity securities.

The fair value of the Trust's individual investments is established at net asset value (NAV) and at June 30, 2015 are as follows:

		2015
Mutual funds:		
Equity	$	190,192
Fixed income		118,162
Other – balanced funds		65,911
Other – real estate		12,848
Total investments	$	387,113

Custodial Credit Risk: The California Government Code requires California banks and savings and loan associations to secure the Trust's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the Trust. All cash held by financial institutions is entirely insured or collateralized.

Credit Risk: The Trust's investment policy requires all fixed income investments to be of investment grade quality or higher at purchase; that is, at the time of purchases, rated no lower than "BBB" by Standard and Poor's. The Retirement Board of Authority, at their discretion, may impose a higher standard on an individual investment manager basis as circumstances or investment objectives dictate. At June 30, 2015, the Trust investments consisted of open-end mutual funds, therefore there are no credit ratings to disclose.

Interest Rate Risk: The Trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2015, the Trust had no significant interest rate risk related to investments held.

REQUIRED SUPPLEMENTARY INFORMATION

I. – SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
May 1, 2006	$ -	$ 7,974,678	$ 7,974,678	0%	$ 46,200,000	17.26%
March 1, 2009	$ -	$ 7,848,063	$ 7,848,063	0%	$ 46,200,000	16.99%
March 1, 2011	$ -	$ 7,600,837	$ 7,600,837	0%	$ 29,338,000	25.91%
July 1, 2013	$ -	$ 8,143,893	$ 8,143,893	0%	$ 25,432,000	32.02%

II. – SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Required Contribution (ARC)	Contributions	Percentage of ARC Contributed
June 30, 2009	$ 1,119,675	$ 457,848	40.89%
June 30, 2010	$ 1,013,533	$ 604,150	59.61%
June 30, 2011	$ 1,013,533	$ 522,456	51.55%
June 30, 2012	$ 2,150,896	$ 453,565	21.09%
June 30, 2013	$ 686,280	$ 405,793	59.13%
June 30, 2014	$ 686,280	$ 613,700	89.42%
June 30, 2015	$ 889,069	$ 948,704	106.71%

III. – NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

1. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

2. Actuarial value of assets for the year ended June 30, 2015 are based on the actuarial valuation date of July 1, 2013 and do not reflect the contribution made on June 29, 2015.

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Antelope Valley Community College District
Lancaster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Antelope Valley Community College District Benefit Trust (the "Trust"), a fiduciary fund of Antelope Valley Community College District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the 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 District's internal control over the Trust's financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting for the Trust.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's Trust financial statements are free of material misstatement, we performed tests of the Trust's compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance for the Trust. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance for the Trust. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Sacramento, California
January 11, 2016

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	2/18/2016
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-035
Annual Report to the Governing Board of Trustees		Enclosure:	Yes
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The current status of the District's OPEB Investment Trust is to be periodically provided to the Antelope Valley Community College District Board of Trustees.

STATUS:

The RBOA membership anticipates a presentation as to the status of the District's OPEB Trust to the Antelope Valley CCD Governing Board of Trustees on **March 14, 2016.** Schedules for the preparation of presentation materials should be identified and accepted by all the presentation functionaries.

RECOMMENDATION:

The Retirement Board of Authority shall hear the presentation and file the information accordingly.

RPM

Antelope Valley College

Futuris
A Keenan Solution

March 14, 2016

Presented By

- Chuck Thompson – *RPM* Consultant Group
  – 2015 Retirement Board of Authority Status and Progress -- Slides 3 to 7

- Gail Beal – Keenan Financial Services
  -- The Futuris Team, The Structure and Conflict of Interest Mitigation Overview -- Slides 8 to 12

- Diana Keelen – Antelope Valley College
  -- 2015 Accomplishments -- Slide 13
  -- 2016 Goals/Objectives -- Slide 14
  -- 2015 Financial Audit Overview -- Slides 15 to *? To Be Added*

Antelope Valley College
Retirement Board Members

- Diana Keelen, Executive Director of Business Services, Chairperson
- Mark Bryant, Vice President Human Resources, Vice Chairperson
- Michael Adams, Elected Official/Board of Trustees Member, Retirement Board Member

Retirement Board of Authority Responsibilities

- Provides high level oversight of the Program
- Adopts and executes the terms of the Trust
- Adopts the Investment Policy Statement
- Requires Brown Act meetings creating transparency
- Documents the Due Process
- Provides Local Control
- Futuris structure mitigates liability for the District and Retirement Board of Authority

ANTELOPE VALLEY COLLEGE

GASB 74 and 75 Statements Modifications Overview

Futuris
A Keenan Solution

- **OPEB GASB STATEMENT NO. 74 and 75:**
  Replaces GASB 43 and 45 Updates Financial Reporting Process
- **EFFECTIVE DATES:**
  July 1, 2016 and GASB 75 Effective July 1, 2017
- **FREQUENCY OF ACTUARIAL VALUATIONS :**
  Every two (2) Years for all Public Entities. An Update of Actuarial Valuation Report Required Between Years
- **RECOGNIZING OPEB LIABILITY:** OPEB Liability Reported on Face of Financials. Net or Total Gross Depending if Trust is in Place or not in Place
- **MEASURING OPEB LIABILITY:**
  COLA Changes, Taxes and Other Expense Assessments.
  Cadillac Tax and other penalties are considered an OPEB GASB Liability.
  Discount Rates Vary Based on Long Term or Short Term or No Term Funding.
  AA or Higher , 20-Year General Obligation Municipal Bond Yield or Index Rate (Usually Lower Returns)
  Entry Age Method and Level Percentage of Payroll.
- **CALCULATING OPEB EXPENSE:**
  No More Thirty (30) Years to Amortize Any Financial
  Misstatement Factors Included in OPEB
  Expense/ New Amortizing Schedules Immediately, Over Average Remaining Years of
  Employment and Over five (5) Years.
- **NOTE DISCLOSURES AND REQUIRED SUPPLEMENTARY INFORMATION:**
  Required Supplementary Information (RSI), Information will Vary Depending on Which Plan of Participation, Trust or No Trust

ANTELOPE VALLEY COLLEGE

Futuris
A Keenan Solution

Actuarial Valuation

• Report Date	7/01/2015	7/01/2015
• Projected Rates of Return	4.50%	6.50%
• Actuarial Present Value of Total Projected Benefits (APVTPB)	$17,164,282	$13,555,494
• Actuarial Accrued Liability (AAL)	$10,385,223	$9,093,980
• Annual Required Contribution (ARC)	$ 1,389,475	$1,190,259
• Pay-as-you-Go	$ 482,158	$482, 158
• Added Cost	$ 907,317	$708,101

ANTELOPE VALLEY COLLEGE

Futuris
A Keenan Solution

Irrevocable Trust Performance

• Portfolio Value on 09-30-15	$731,528.91
• Contributions	$0.00
• Withdrawals	$0.00
• Change in Market Value	--$1,198.02
• Income Received	$19,527.58
• Portfolio Fees	--$2,243.39
• Portfolio Value on 12-31-15	$747,615.08

ANTELOPE VALLEY COLLEGE

Futuris
A Keenan Solution

The Team

Keenan Financial Services

Gail Beal, Sr. Vice President – 14 years experience

Roslyn Washington, Sr. Account Manager – 9 years experience

A WEALTH OF KNOWLEDGE BenefitTrust

Scott Rankin, Sr. Vice President - 9 years experience

Kelly Spire, Client Manager –3 years experience

Morgan Stanley

Cary Allison, Sr. Vice President – 9 yrs experience

LaQuela Barnett, Registered Client Services Associate

No Conflict of Interest

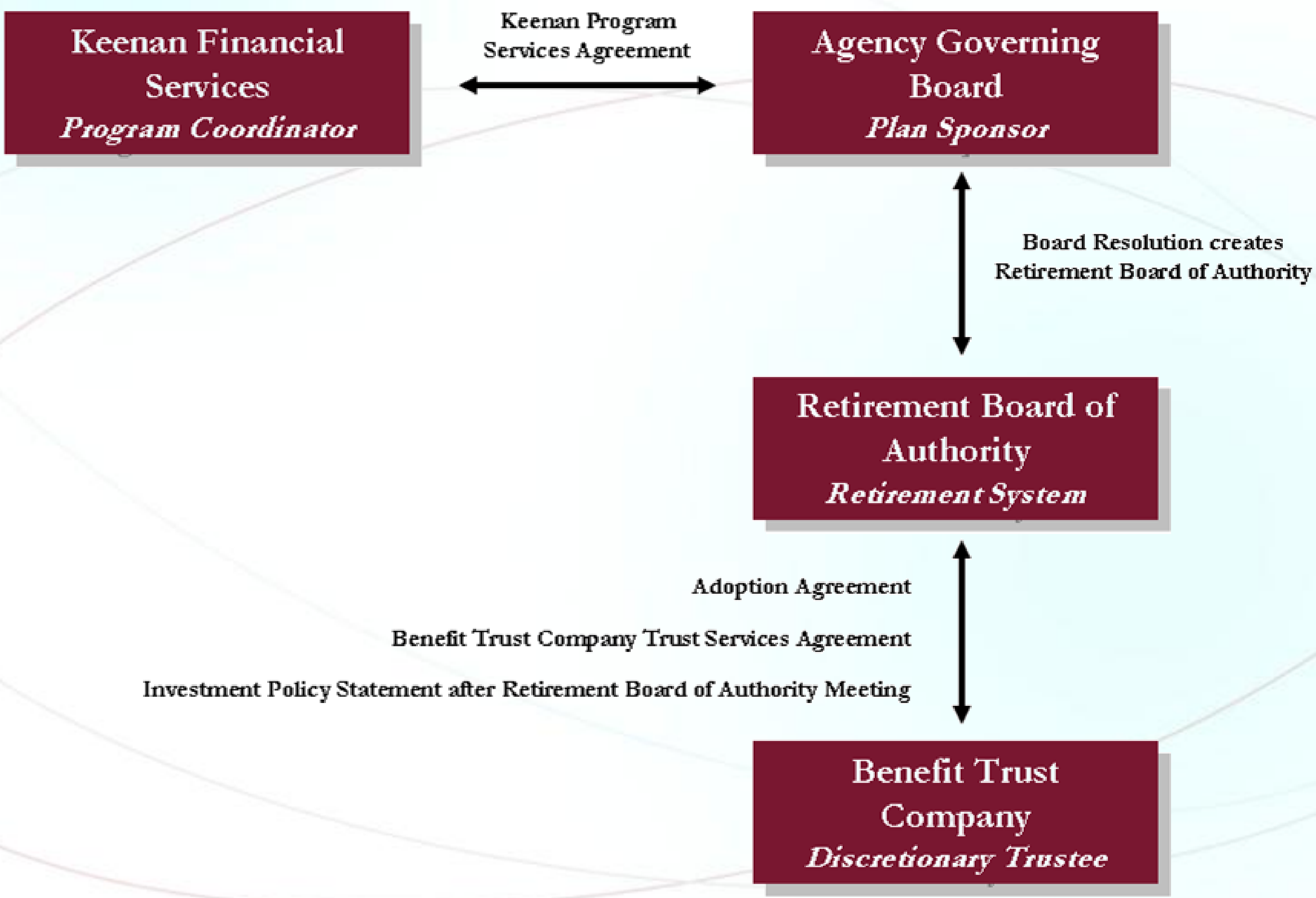
- Futuris: Structurally

-- Program Coordinator, Trustee, and RIA roles are separate

-- Creates built in oversight of all parties

-- Creates no conflict of interest as each has their own distinct responsibility

Program Structure



ANTELOPE VALLEY COLLEGE

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No Conflict of Interest

- Futuris- Investment Decision Making
  - Morgan Stanley recommends Investment Managers through a nonbiased evaluation process
  - Uses only best of breed Investment Managers
  - Is free from outside influences
  - Morgan Stanley funds are not allowed

No Conflict of Interest

- Futuris does **not** accept nor allow:
  - Pay-to-play program fees
  - 12b-1 marketing fees
  - Sub transfer agency fees
  - Shareholder service fees
  - Off-NAV Revenue Sharing
  - Proprietary Investment Funds

2015 Accomplishments

- Issued RFP, evaluated & selected Keenan's Futuris Program
- Established & Start Funding Irrevocable Trust
- Complete Updated Actuarial Study
- Assessed the Impact of GASB 67 & 68 Pension Liability. Included in 2014 2015 audited financial statements. Net position of the District still shows positive.
- Reviewed the recently released the June 2015 GASB 74 & 75 guideline modifications for impact on the District's management of the OPEB GASB 43 &45 compliance process.

2016 Goals/Objectives

- Complete actuarial valuation showing affect of trust contributions on long term OPEB liability
- Continue Develop and Installation of the "Management Plan" for Funding OPEB GASB 43, 45, 74 and 75 Liability
- Develop Policies & Procedures for the Maintenance of GASB 43, 45, 74 and 75 Compliance to include the "Substantive Plan"
- Prepare to implement GASB 74 & 75 guidelines issued June 2015 and to be installed in 2016 and 2017

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2014-2015 Public Entity Investment Trust Audit

- Audited first year contributions of $387,113 into irrevocable trust account
- Auditing firm reviewed investment valuation to ensure fair valuation, investment policy & implementation, and OPEB compliance plan
- There were no audit findings or recommendations

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Accreditation Follow Up Report

- **Recommendation, Standard III.D.3.c: The college needs to allocate funds to the OPEB trust. The activity of the Retirement Board does not demonstrate clear progress in addressing the OPEB liability and its impact on the College's ability to prevent service impacts.**

- February 5, 2016 received ACCJC memo regarding Standard III.D.3.c.

- The Commission finds that AVC's recent changes implemented to resolve deficiencies has been sustained.

- The changes must be reflected in the Fall 2016 comprehensive review.

ANTELOPE VALLEY COLLEGE

RPM

Antelope Valley College

Futuris

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March 14, 2016

Innovative Solutions. Enduring Principles.

Keenan Financial Services

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ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:	DATE: 02/18/2016
Retirement Board of Authority	

SUBJECT:	ITEM #: 2015/2016-036
Retirement Board of Authority Comments	Enclosure: No
	Action Item No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Each member may report about various matters involving the Retirement Board of Authority.

RECOMMENDATION:

There will be no Retirement Board of Authority discussion except to ask questions or refer matters to staff, and no action will be taken unless listed on a subsequent agenda.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority	DATE: 02/18/2016
SUBJECT: Program Coordinator/Consultant Comments	ITEM #: 2015/2016-037 Enclosure: No Action Item No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The Program Coordinator may address the Board of Authority on any matter pertaining to the Retirement Board of Authority that is not on the agenda.

RECOMMENDATION:

There will be no Retirement Board of Authority discussion except to ask questions or refer matters to staff, and no action will be taken unless listed on a subsequent agenda.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	02/18/2016
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-038
Date, Time and Agenda Items for Next Meeting		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Board members and visitors may suggest items for consideration at the next Retirement Board of Authority meeting.

RECOMMENDATION:

The Board will determine Agenda Items for the next meeting.