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An Overview of the New GASB Pension Accounting and Reporting Standards

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GASB Pension Accounting Standards

GASB Resources:

- Statement 67 (plans)
- Statement 68 (employers)
- Statement 71 (amendment to 68 – pension transition)

- Two Implementation Guides
  - Statement 67 guidance issued June 2013
  - Statement 68 guidance issued January 2014

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Statement No. 67, *Financial Reporting for Pension Plans*

an amendment of GASB Statement No. 25

GASB 67 Summary

- What is GASB Statement No. 67?
  - Replaces requirements of Statements No. 25 and No. 50 relating to pension plans administered through trusts or equivalent arrangements.
    - Few changes from GASB Statement No. 25 for financial statement recognition
  - Objective is to improve financial reporting by state and local governmental pension plans.
    - Enhance decision-usefulness of the financial reports
    - Increase value for assessing accountability
    - Improve transparency

GASB 67 Summary *(Cont.)*

- Scope of GASB 67
  - Defined Benefit Plans
  - Defined Contribution Plans

- Addresses pension plans with the following criteria:
  - Contributions from employers and non-employer contributing entities, and related earnings to the Plan are irrevocable
  - Pension plan assets are dedicated to providing pensions to Plan members in accordance with terms
  - Pension plan's assets are legally protected from creditors of employers, plan administrator, and members

GASB 67 Summary *(Cont.)*

- **Application**
  - **Stand-alone financial reports**
  - **Plans included as a pension trust fund of another government**
- **Effective for FYs beginning after June 15, 2013 (FY14)**

Defined Benefit Plans

- General Overview
  - Establishes standards of financial reporting for separately issued financial reports
  - Notes/RSI changes to Defined Benefit Plans primarily to reflect changes in measurement of the net pension liabilities of employers
  - Details note disclosure requirements for Defined Contribution Plans that meet criteria

Defined Benefit Plans *(Cont.)*

Financial Statements

- Statement of Fiduciary Net Position
  - Assets
  - Liabilities
  - Deferred inflows/outflows of resources (as applicable)
  - Fiduciary net position

- Statement of Changes in Fiduciary Net Position
  - Additions
  - Deductions
  - Net increase (decrease)

Appendix C Illustration

COUNTY EMPLOYEES RETIREMENT SYSTEM

County Employees Pension Plan

Statement of Fiduciary Net Position
June 30, 20X9

(Dollar amounts in thousands)

	20X9
Assets	
Cash and deposits	$ 69,497
Securities lending cash collateral	170,065
Total cash	239,562
Receivables:	
Contributions	6,988
Due from broker for investments sold	59,777
Investment income	4,402
Other	114
Total receivables	71,281
Investments:	
Domestic fixed income securities	637,987
Domestic equities	1,006,595
International equities	430,486
Real estate	137,860
Total investments	2,212,918
Total assets	2,523,761
Liabilities	
Payables:	
Investment management fees	1,482
Due to broker for investments purchased	107,861
Collateral payable for securities lending	170,065
Other	7.265
Total liabilities	286.643
Net position restricted for pensions	$ 2,237,108

Appendix C Illustration *(Cont.)*

Statement of Changes in Fiduciary Net Position
for the Year Ended June 30, 20X9

(Dollar amounts in thousands)

	20X9
Additions	
Contributions:	
Employer	$ 79,713
Member	31,451
Total contributions	111,164
Investment income:	
Net appreciation in fair value of investments	162.137
Interest and dividends	42,179
Less investment expense, other than from securities lending	(8,905)
Net income from investing, other than from securities lending	195,411
Securities lending income	989
Less securities lending expense	(246)
Net income from securities lending	743
Net investment income	196,154
Other	41
Total additions	307,359
Deductions	
Benefit payments, including refunds of member contributions	119,434
Administrative expense	3,373
Other	33
Total deductions	122,840
Net increase in net position	184,519
Net position restricted for pensions	
Beginning of year	2,052,589
End of year	$ 2,237,108

Defined Benefit Plans *(Cont.)*

Notes to Financial Statements

- **Required Disclosure**
  - **Types of benefits provided**
  - **Classes of plan members covered**
  - **Information about Plan investments**
  - **Investment policies**
  - **Description of how fair value is determined**
  - **Concentrations of investments with individual organizations equaling or exceeding 5% of the Plan’s fiduciary net position**
  - **Annual money-weighted rate of return on Plan investments (1 year)**

Appendix C Illustration *(Cont.)*

Plan membership. At June 30, 20X9, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	4,002
Inactive plan members entitled to but not yet receiving benefits	1,207
Active plan members	5,347
	10,556

Defined Benefit Plans *(Cont.)*

Notes to Financial Statements *(Cont.)*:

- **Single-employer and Cost-sharing Plans**
  - **Total pension liability**
  - **Fiduciary net position**
  - **Net pension liability**
  - **Fiduciary net position as a percentage of the Total pension liability**
  - **Significant assumptions used to calculate the Total pension liability (i.e. inflation, salary changes, etc.)**

Appendix C Illustration *(Cont.)*

Net Pension Liability of the County

The components of the net pension liability of the County at June 30, 20X9, were as follows:

Total pension liability	$	2,988,861
Plan fiduciary net position		(2,237,108)
County's net pension liability	$	751,753
Plan fiduciary net position as a percentage of the total pension liability		74.85%

Appendix C Illustration *(Cont.)*

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 20X9, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Defined Benefit Plans *(Cont.)*

Required Supplementary Information (RSI)

- **Required Information**
  - Schedule of annual money-weighted rate of return on investments (10 years)
  - Explanation of factors affecting trends in the amounts reported
    - Changes of benefit terms
    - Changes in size or composition of population covered by benefit terms
    - Use of different assumptions

Appendix C Illustration *(Cont.)*

SCHEDULEOFINVESTMENTRETURNS

Last10FiscalYears

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Annual money-weighted rate of return, net of investment expense	9.58%	(2.10%)	(0.77%)	16.67%	10.46%	9.81%	15.88%	3.31%	(1.83%)	(0.46%)

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

Defined Benefit Plans *(Cont.)*

Required Supplementary Information (RSI) ***(Cont.)***

- **Single-employer and Cost-sharing Plans (10 years)**
  - **Schedule of changes in Net Pension Liability by source**
  - **Components of Net Pension Liability and related ratios**
  - **Schedule of Actuarially determined contributions**

- **RSI prospective (except contribution schedule, if presented), if information not initially available**

Defined Benefit Plans *(Cont.)*

Measurement of the Net Pension Liability

- **Total Pension Liability – Plan's Fiduciary Net Position = Net Pension Liability**

- **Actuarial valuation of the Total Pension Liability**
  - **At least every two years (more frequent valuations encouraged)**
  - **If valuation is not performed at Plan's fiscal year-end, the total pension liability is based on updated amounts from earlier actuarial valuation**

Defined Contribution Plans

- Required Note Disclosure
  - Classes of plan members covered
  - Number of plan members
  - Participating employers
  - Non-employer contributing entities (if any)
  - Authority under which Plan is established and may be amended

GASB 67 Implementation Guide

Q: Because benefit payments not yet due and payable are not recognized as plan liabilities, should plan liabilities, as reported in the financial statements, be limited to current liabilities (Q 36)?

GASB 67 Implementation Guide *(Cont.)*

A: <u>No</u>

Plan liabilities should include noncurrent liabilities other than those related to benefits such as mortgage loans or capital lease obligations.

GASB 67 Implementation Guide *(Cont.)*

Q: Should amounts held pursuant to DROP be reported by a DB plan as a liability for benefits in the plan's statement of fiduciary net position (Q 37)?

GASB 67 Implementation Guide *(Cont.)*

A: Yes and No

Benefit amounts in DROP that are currently due and payable to a plan member at the plan's reporting date should be recognized as a liability. Within the context of DROP however, benefits generally would be due and and payable only when they are required to be distributed to the plan member. Disclosure in the notes would still be required.

State Reporting *(Cont.)*

- Bill in 2013 legislative session (SB 534, Chapter 2013-100) created reporting requirement for DB plans
- Bill expressly states that the State is not liable for any current or future shortfall in any local government plan.
- Bill is currently on hold

State Reporting

- Not a funding requirement
- Requires electronic reporting to DMS
- First report due within 60 days after receipt of certified actuarial report for FY14
- Subsequent reporting done on plan's schedule for actuarial reporting (every 1 to 3 years)

State Reporting *(Cont.)*

- **Report will include:**
  - **Annual F/S under GASB 67**
  - **Rate of Return 200 basis pts less than assumed RoR**
  - **# of months/years able to sustain benefit payments**
  - **Recommended future contributions**
- **Must also post information to website**
- **Untimely filing (not within 60 days) is considered noncompliance**
  - **DMS may report noncompliance to DOR/DFS who may withhold funds payable to the plan sponsor**

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Statement No. 68, *Accounting and Financial Reporting for Pensions*

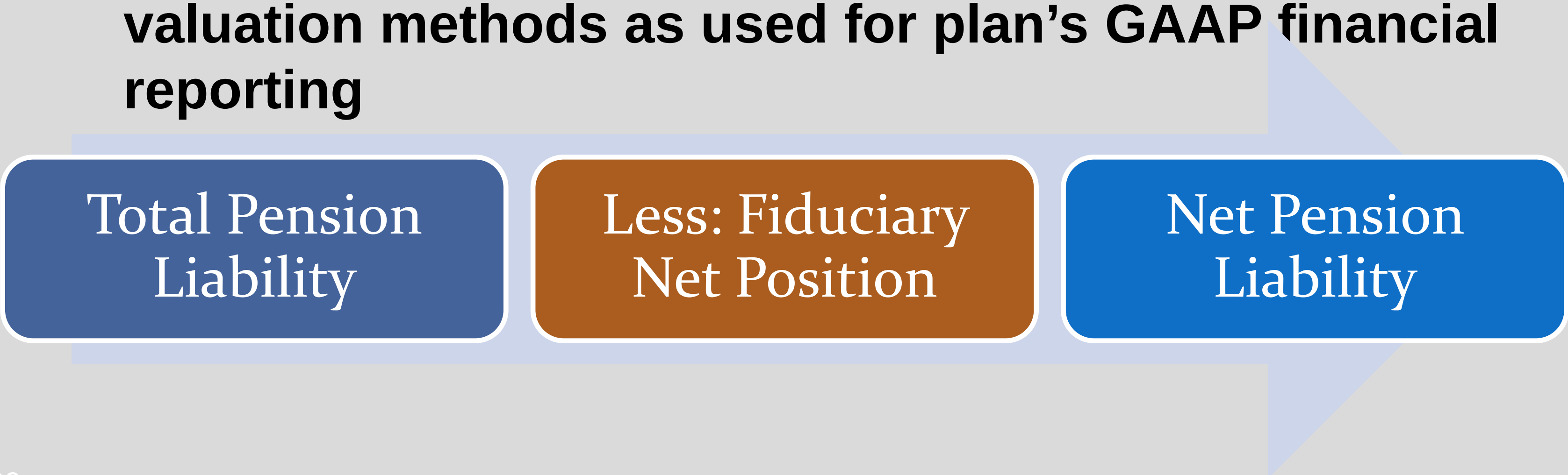
an amendment of GASB Statement No. 27

Effective Date and Transition

- **Fiscal years beginning after June 15, 2014 (FY15)**
- **Beginning deferred outflows/deferred inflows of resources balances all or nothing at initial implementation (except for pension contributions made subsequent to measurement date – GASB 71)**
- **RSI schedules prospective if information not initially available**

Net Pension Liability

- **Net pension liability (asset) equals the total pension liability for the pension plan, less the fiduciary net position:**
  - **Total pension liability is the actuarial present value of projected benefit payments attributed to past employee service**
  - **Fiduciary net position is determined using same valuation methods as used for plan's GAAP financial reporting**



Sample Entry to Implement

Dr.	Net Position	$ 2,875,000	
Dr.	Pension Expense (By Function)	100,000	
Dr.	Deferred Outflows of Resources	50,000	
Cr.	Net Pension Liability		$3,000,000
Cr.	Deferred Inflow of Resources		25,000

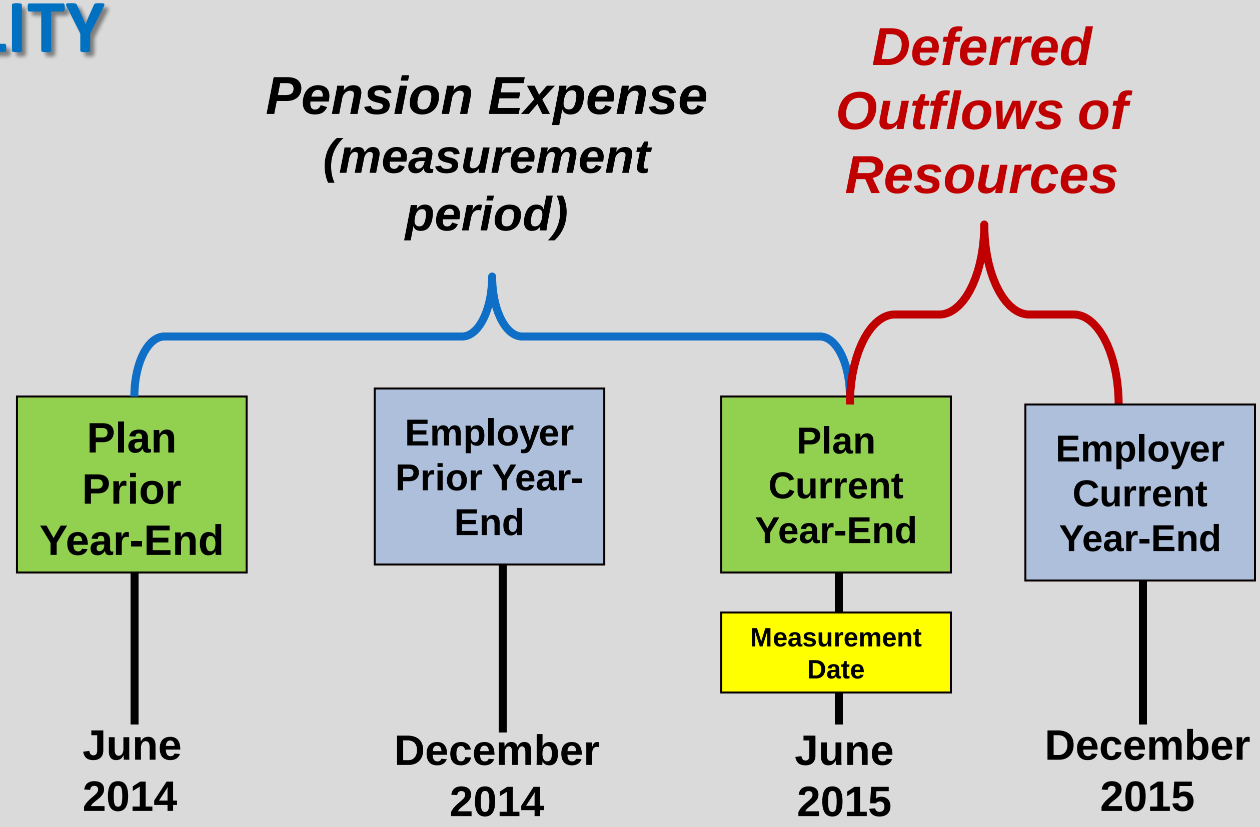
This entry would be made directly to individual Business Type Activities. It would also be part of the reconciling items to Governmental Activities for the entity-wide statements.

Timing and Frequency of Measurement of Total Pension Liability

- Employers should report in their financial statements a ***net pension liability (asset)*** determined as of *a date (measurement date) no earlier than the end of the employer's prior fiscal year* for each defined-benefit pension plan in which they participate
- *The measurement date used should be consistently applied from period to period*
- Measurement of the total pension liability is determined through:
  - An actuarial valuation performed as of the *measurement date,* or
  - The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than *30 months and 1 day* earlier than the employer's year-end
  - Use professional judgment in determining extent of update procedures when changes in plan occur between last valuation date and the *measurement date*

Measurement date will most likely correspond to year-end of plan. In this case, employers with same year-end as plan must choose measurement date as of their prior or current year-end.

Timing of Measurement of Total Pension Liability



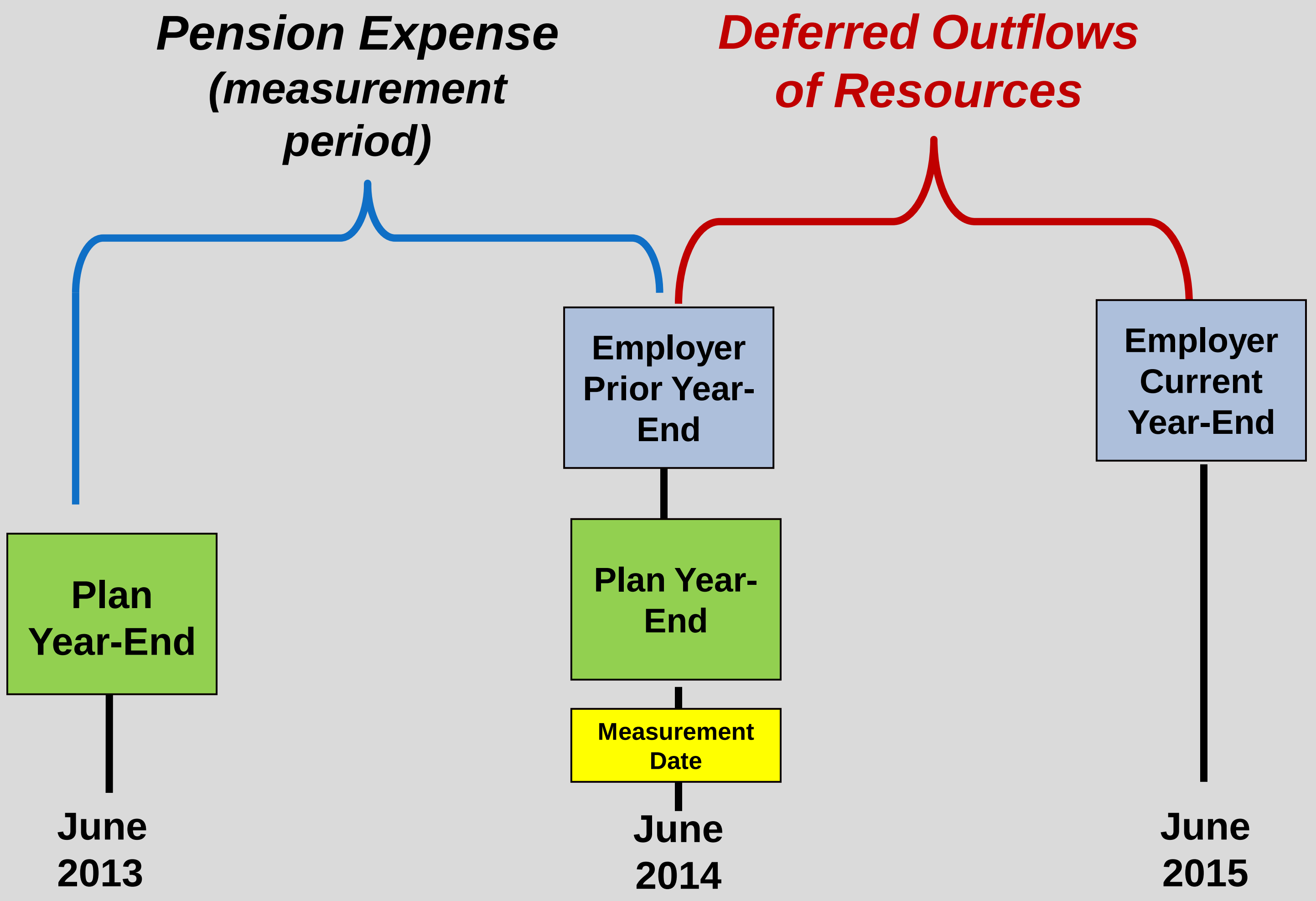
Measurement date will most likely correspond to year-end of plan. Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources (GASB 71).

Example Public University

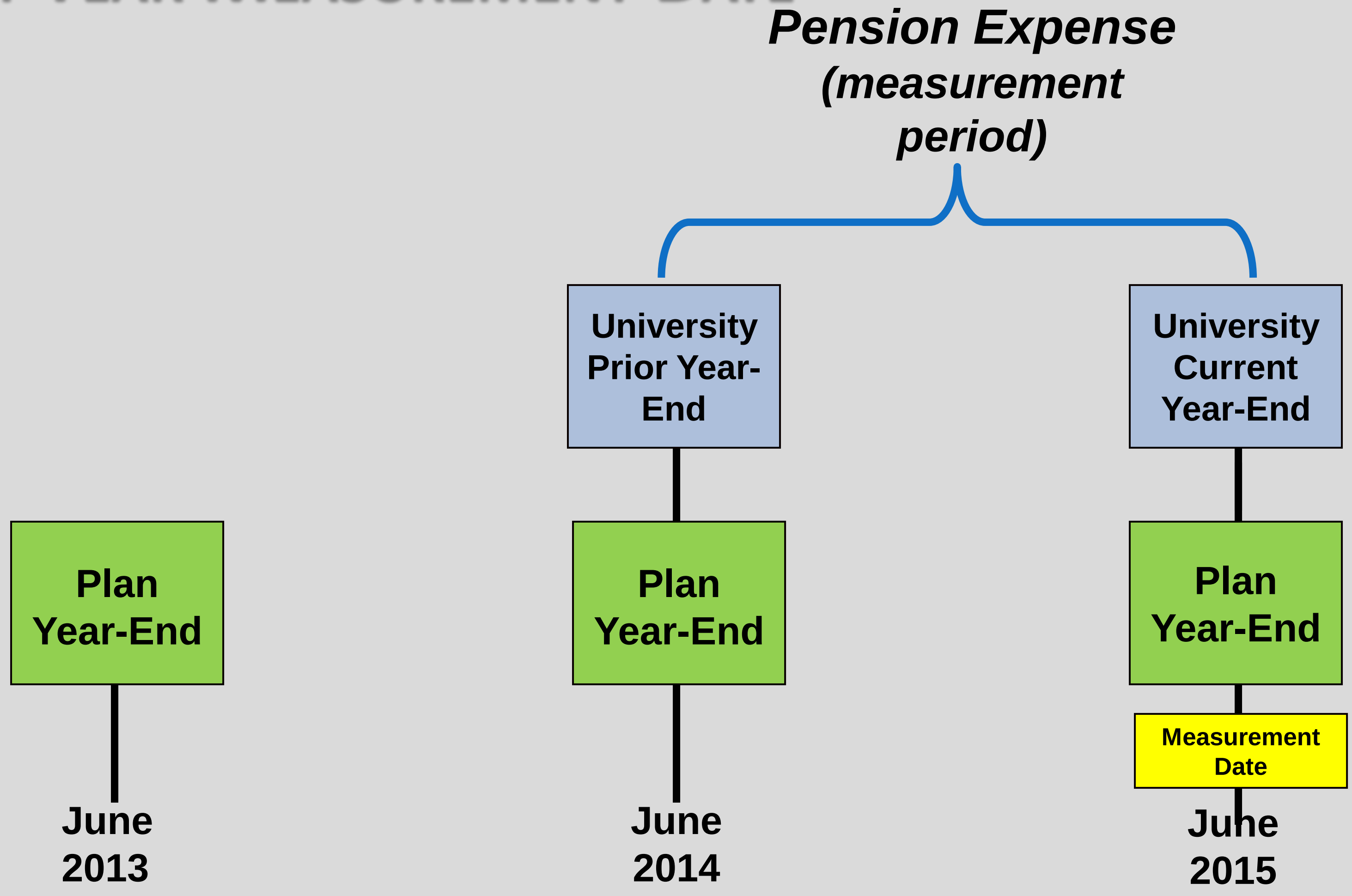
Public University participates in a cost-sharing, multiple-employer, defined-benefit plan sponsored by the State of Example. Public University is implementing GASB Statement 68 during the year ended June 30, 2015. The cost-sharing plan also has a fiscal year-end of June 30th and implemented the provisions of GASB Statement 67 during the year ended June 30, 2014. Public University's financial statements are a single-year presentation.

In accordance with GASB Statement 68, the measurement date for Public University must be as of a date no earlier than the end of its prior fiscal year. Since Public University and the Plan have the same year end, Public University may elect to use June 30, 2014 or June 30, 2015 as the measurement date. However, once selected, the measurement date should be consistently applied from period to period.

Example Public University – Impact of Using Prior Year Measurement Date



EXAMPLE PUBLIC UNIVERSITY – IMPACT OF USING CURRENT YEAR MEASUREMENT DATE



Pension Expense

- Changes in net pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on nature of change

- Approach results in reporting of pension liability and expense as employees earn their pension benefits by providing services instead of being based on funding requirements

- No significant changes to accounting for pensions in governmental funds

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Determining Pension Expense and Deferred Outflows/Inflows of Resources

- **The following amounts will be required to be determined related to a defined-benefit pension plan as of *a date (measurement date) no earlier than the end of the employer's prior fiscal year*:**
  - **Net pension liability (asset)**
  - **Pension expense**
  - **Pension deferred outflows of resources and deferred inflows of resources**
- **Employers participating in single-employer or agent multiple-employer plans will recognize 100 percent of the above amounts for each plan**
- **Employers participating in cost-sharing, multiple-employer plans will recognize their proportionate share of the collective amounts for the plan as a whole**

Changes in Net Pension Liability Immediately Recognized as Pension Expense

Changes in the Total Pension Liability

Current period service cost

Interest on the beginning total pension liability

Impact of changes in benefit terms

Changes in Plan's Fiduciary Net Position

Projected earnings on plan investments

Changes in plan fiduciary net position other than employer contributions and benefit payments (e.g., employee contributions, admin costs)

Conceptually, the effect of employer contributions made directly by the employer should not be recognized as expense.

Changes in Net Pension Liability Immediately Recognized as <u>Deferred Outflows/Inflows</u>

Changes in the Total Pension Liability

Effects of actuarial differences and changes in assumptions related to economic or demographic factors attributable to *active and inactive employees, including retirees*

Recognize as deferred inflow/outflow and amortize over a closed period *equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)*

Changes in Plan's Fiduciary Net Position

<u>Differences</u> between actual and projected earnings on plan investments

Recognize as deferred inflow/outflow and amortize over a closed five-year period—report amounts from multiple years, net

Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.

Deferred Outflows and Inflows of Resources

- **Differences between expected and actual experience with economic and demographic factors:**
  - **Mortality**
  - **Payroll increases**
  - **Retirements**
  - **Employee turnover**
- **Effect of changes in assumptions about future economic and demographic factors:**
  - **Discount rate**
  - **Mortality (tables)**
  - **Future payroll increases**
  - **Future inflation rate**
  - **Retirements**
  - **Employee turnover**
- **Differences between actual and projected earnings on plan investments**

Recognition (Amortization) of Deferred Outflows and Inflows in Pension Expense

- **Recognition (amortization) of deferrals attributable to changes in total pension liability should be based on "systematic and rational" method over a closed period equal to the average of the expected service lives of all employees that are provided pensions through the pension plan (active and inactive employees) service beginning with the year in which the difference occurred**
  - **Results in the creation of "layers," which are amortized over closed period**
  - **The number of "layers" established for each year is based on whether deferrals are equally attributable to all plan participants**
- **Recognition (amortization) of deferrals attributable to differences between projected and actual earnings on plan investments should be based on a "systematic and rational" method over five years beginning with the year in which the difference occurred**

Deferred Outflows and Inflows Disclosure

At June 30, 20X9, the District reported the following deferred outflows of resources and deferred inflows of resources related to pensions:

		Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	2,657	142
Changes of assumptions		1,714	130
Net differences between projected and actual earnings on plan investments		0	5,684
Change in proportion and the effect of certain employer contributions on the employer's net pension liability		596	105
Employer contributions made subsequent to the measurement date		1,007	0
Total	$	5,975	6,061

Deferred outflows and deferred inflows of resources related to pensions generally should not be netted

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Actuarial Information

Actuarial Information

- **Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes:**
  - **Entry Age Normal is the only allowable actuarial cost method**
  - **Projected benefit payments should include effects of ad-hoc COLAs considered substantially automatic**
  - **A single blended rate should be used to discount projected future benefit payments, based on:**
    - **The long-term expected rate of return on plan investments (net of investment expenses) that are expected to be used to finance the payment of pension benefits to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested, using a strategy to achieve that return; *and***

Actuarial Information *(Con't.)*

- **Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes:** ***(Cont.)***
  - **A yield or index rate for *20-year*, tax-exempt general obligation (municipal) bonds with average rating of AA or higher, to the extent that the conditions above are not met**
  - **The actuarial methods and assumptions allowable under current standards may continue to be used to determine funding amounts**
- **Note disclosures and required supplementary information related to pensions are expanded**

NPL: Measurement—Discounting

- Single discount rate
  - Reflects:
    - LTeRoR on pension plan investments, to extent that plan net position:
      - Projected to be sufficient to pay benefits
      - Plan assets expected to be invested using a strategy to achieve that return
    - Rate for 20-year, tax-exempt general obligation municipal bonds to extent that conditions for LTeRoR not met

Discount Rate—Determining the Single Rate

- Compare projected benefit payments to plan's projected fiduciary net position in each period
- Apply relevant rate to each period's projected benefit payments
- Total the present values of all projected benefit payments
- Calculate single discount rate that results in same present value (if applied to all projected benefit payments) as use of the two rates

Where to Start?

- Read statutes/plan document
  - Gain understanding of key provisions
- Obtain actuarial valuation report
  - Measurement date
  - Key assumptions
  - Plan provisions
- Obtain and test census data from actuary and payroll
- Obtain confirmation from actuary
- Evaluation of management's specialist
- Consider need for auditor specialist

Actuarial Valuation Report

Table of Contents

ACTUARIAL ASSUMPTIONS

Investment Return Rate	7.25%
Wage Inflation Rate	4.0%
Pay increase Assumptions	4.0%
Assumed Retirement	62
Rates of: Mortality, Disability, Retirement, and Marriage	Actual Experience during 2008-2010 Period

The auditor must obtain an understanding of the actuarial methods and assumptions and assess their reasonableness and consistency of application.

Census Data

- Key census data
  - Date of birth
  - Gender (male or female)
  - Date of hire or years of service
  - Date of termination or retirement
  - Marital status
  - Spouse date of birth
  - Eligible compensation
  - Employment status
- Auditing census data
  - Active employees
  - Inactive/retired
- Resolving exceptions

The auditor must test the reliability and completeness of the census data provided to the actuary

Census Data – Multiple-Employer PERS

- When auditing participant data in a multi-employer benefit plan, the auditor is often unable to directly test payroll records

- AICPA EBP Guide (10.10) states census data for participating employers should be subject to testwork on a cycle basis – with a four-year cycle being typical. Testing may be performed by:
  - In-house compliance personnel,
  - Employer auditors (i.e., agreed-upon procedures), or
  - Auditor of plan

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Accounting and Audit Issues Related to Cost-Sharing Multiple-Employer PERS

Participation in Cost-Sharing Plans

- **An employer should recognize its proportionate share of the collective net pension liability, pension expense, and deferred outflows/inflows of a cost-sharing plan as of the employer's measurement date (no earlier than employer's prior year-end)**
- **Basis for proportion should be consistent with manner in which required contributions are determined**
  - **Use of projected long-term contribution effort of the employer(s) and nonemployer contributing entities is encouraged**
  - **If different contribution rates are assessed based on separate relationships (i.e., different tiers or classes of employees), calculation of proportion should reflect the separate relationships**
  - **Employer's proportion established as of measurement date, unless actuarially determined, in which case actuarial valuation date should be used**

It is anticipated the calculation of proportion for FRS will be performed by the plan for all participating employers, based on required contributions.

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Participation in Cost-Sharing Plans

- **Application of this proportionate share concept results in two types of potential changes in employer net pension liability unique to cost-sharing plans:**
  - **Net effect of a <u>change in the employer's proportion</u> of the plan's collective net pension liability and deferred outflows/inflows of resources**
  - **Difference between actual employer contributions and the employer's proportionate share of collective employer contributions**

Net Effect of a Change in the Employer's Proportion of the Plan

- **The net effect of a change in the proportion used to calculate employer's share of collective plan net pension liability and deferred amounts should be:**
  - **Measured as the difference between the plan's collective balances as of the beginning of the *measurement period* multiplied by:**
    a. **The employer's proportion assumed in the *prior period*, and**
    b. **The employer's proportion assumed in the *current period***
  - **Recognized as a deferred outflow/inflow of resources in the period of change**
  - **Recognized as part of pension expense, beginning in the period of the change over a closed period, using a systematic and rational method**
    - **Closed period is *equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)***

Difference Between Actual Employer Contributions and the Employer's Proportionate Share of Collective Employer Contributions

- The difference *during the measurement period* between actual plan contributions made by an employer related to the contractually required contribution and the amount of the employer's proportionate share of collective employer contributions recognized by the plan should be:
  - Recognized by the employer as a deferred outflow/inflow of resources in the period of the difference
  - Recognized as part of pension expense beginning in the period of the difference over a closed period, using a systematic and rational method
    - Closed period is equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)
- This deferred outflow/inflow of resources may be reported on a net basis with that resulting from a change in the employer's proportion of collective plan

Cost-Sharing Plans – AICPA Guidance

Whitepapers

- Government Employer Participation in Cost-Sharing Multiple Employer Plans: Issues Related to Information for Employer Reporting
- Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data

Auditing Interpretations

- Issued interpretations to 3 AU-C sections
  - AU-C 500
  - AU-C 600
  - AU-C 805

Links to Papers & Interpretations on GAQC "GASB Matters" website: www.aicpa.org/GAQC

Cost-Sharing Plans – Issues

- **Audited financial statements of the plan only include disclosure of the collective net pension liability for the plans as a whole. They do NOT include:**
  - Deferred outflows/inflows of resources by category
  - Pension Expense
  - Each participating employer's share of collective pension amounts
- **Standard is silent on who (plan or each individual participating employer) should calculate allocation percentages**
- **Audited financial statements of the plan may not include necessary information to calculate allocation percentages**
- **Standard provides flexibility in approach to determining allocations**
- **Standard encourages an allocation method that will be extremely difficult to audit, as it is based on projected future contributions**

Cost-Sharing Plans – Issues (Cont)

- **GAAP financial statements of the plan and additional unaudited information from the plan will NOT provide sufficient appropriate audit evidence for the governmental employer auditor.**
  - Absent additional audit evidence from the cost-sharing plan, the employer auditor would not likely be able to accumulate sufficient appropriate audit evidence.
  - If unable to accumulate sufficient appropriate evidence, the employer auditor should <u>modify the audit opinion</u>.

(AU-C section 9500, Question 2)

Cost-Sharing Plans – Issues (Cont)

- **Application of Group Audits**
  - Group audits is not applicable from the perspective of the requirements of GASB 68. Thus, a governmental pension plan is NOT a component of the employer for purposes of AU-C 600 when complying with GASB 68. (i.e. FRS is not a component of a participating employer's audit)
  - However, do not confuse this scenario with a plan that is included as a fiduciary fund (column) of another government.

(AU-C section 9600 Question 1)

Cost-Sharing Plans – AICPA Recommendations

- **Plan prepares "schedule of employer allocations" for which plan auditor is engaged to provide opinion.**
  - Use allocation method based on covered payroll or required (actual) contributions depending on whether there are different classes of benefits and whether allocations expected to be representative of future contributions
  - Projected future contributions could be used if necessary

Example Schedule of Employer Allocations

EXAMPLE COST SHARING PENSION PLAN
Schedule of Employer Allocations
6/30/20X5

Employer	20X5 Actual Employer Contributions	Employer Allocation Percentage
Employer 1	$ 2,143,842	36.376 %
Employer 2	268,425	4.554
Employer 3	322,142	5.466
Employer 4	483,255	8.199
Employer 5	633,125	10.742
Employer 6	144,288	2.448
Employer 7	95,365	1.618
Employer 8	94,238	1.599
Employer 9	795,365	13.495
Employer 10	267,468	4.538
Employer 11	403,527	6.847
Employer 12	165,886	2.815
Employer 13	68,454	1.161
Employer 14	6,240	0.106
Employer 15	2,144	0.036
Total	$ 5,893,764	100.000 %

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Cost-Sharing Plans – AICPA Recommendations (Cont)

- **Plan also prepares "schedule of pension amounts <u>by employer</u>" for which plan auditor is engaged to provide opinion.**
  - Schedule includes the following elements for each employer:
    - Net pension liability
    - Deferred outflows of resources by category
    - Deferred inflows of resources by category
    - Pension expense
- **An alternative could be to prepare a "schedule of <u>collective</u> pension amounts" (excluding employer specific deferrals) for the plan as a whole**

Example Schedule of Pension Amounts by Employer

EXAMPLE COST SHARING PENSION PLAN

Schedule of Pension Amounts by Employer

As of and for the year ended 6/30/20X5

		Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense		
Entity	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Plan Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense
Employer 1	$ 45,224,620	438,859	1,569,847	1,404,206	695,426	4,108,338	355,917	–	726,425	1,082,342	1,907,283	12,375	1,919,658
Employer 2	5,661,780	54,942	196,533	175,796	84,231	511,502	44,558	–	74,326	118,884	238,777	(1,793)	236,984
Employer 3	6,795,628	65,945	235,892	211,001	117,354	630,192	53,481	–	98,465	151,946	286,596	(8,088)	278,508
Employer 4	10,193,442	98,917	353,838	316,502	161,215	930,472	80,222	–	165,453	245,675	429,894	3,021	432,915
Employer 5	13,355,038	129,597	463,584	414,668	199,845	1,207,694	105,103	–	197,645	302,748	563,229	(9,900)	553,329
Employer 6	3,043,487	29,534	105,646	94,499	53,453	283,132	23,952	–	48,453	72,405	128,355	599	128,954
Employer 7	2,011,585	19,520	69,827	62,459	33,458	185,264	15,831	–	35,345	51,176	84,836	625	85,461
Employer 8	1,987,964	19,291	69,007	61,725	35,425	185,448	15,645	–	16,453	32,098	83,839	(5,712)	78,127
Employer 9	16,777,717	162,811	582,393	520,941	248,356	1,514,501	132,040	–	284,543	416,583	707,576	8,405	715,981
Employer 10	5,641,888	54,749	195,843	175,178	95,465	521,235	44,401	–	44,356	88,757	237,938	(1,188)	236,750
Employer 11	8,512,562	82,606	295,490	264,312	136,453	778,861	66,993	–	148,543	215,536	359,005	1,254	360,259
Employer 12	3,499,761	33,962	121,485	108,666	52,145	316,258	27,543	–	64,354	91,897	147,597	453	148,050
Employer 13	1,443,418	14,007	50,104	44,818	23,156	132,085	11,360	–	33,453	44,813	60,874	(205)	60,669
Employer 14	131,785	1,279	4,575	4,092	1,968	11,914	1,037	–	894	1,931	5,558	147	5,705
Employer 15	44,757	434	1,554	1,390	1,456	4,834	352	–	698	1,050	1,888	7	1,895
Total for All Entities	$ 124,325,432	1,206,453	4,315,618	3,860,253	1,939,406	11,321,730	978,435	–	1,939,406	2,917,841	5,243,245	–	5,243,245

Cost-Sharing Plans – AICPA Recommendations (Cont)

- **Plan auditor issues opinion on the employer allocations and on the total of each of the four "elements" in accordance with AU-C 805**
  - Net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense <u>for the sum of all participating entities</u>
    - Materiality calculated separately for each element
  - Plan auditor needs to consider the appropriateness of the materiality used in the audit of plan financial statements
    - For audit of a public employee retirement system (PERS) plan financial statements, the audit opinion is provided on the system as a whole (which often includes more than one plan)
    - Audit of plan financial statements effectively has to be performed at a lower level consistent with the "allocation" pool

Cost-Sharing Plans – Illustrative Auditor's Report

- ***Report on Schedules***

  We have audited the accompanying schedule of employer allocations of ABC Pension Plan as of and for the year ended June 30, 20X5, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of ABC Pension Plan as of and for the year ended June 30, 20X5, and the related notes.

- ***Opinions***

  In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for ABC Pension Plan as of and for the year ended June 30, 20X5, in accordance with accounting principles generally accepted in the United States of America.

Cost-Sharing Plans – Illustrative Auditor's Report (Cont)

- ***Other Matter***

  We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of ABC Pension Plan as of and for the year ended June 30, 20X5, and our report thereon, dated October 15, 20X5, expressed an unmodified opinion on those financial statements.

- ***Restriction on Use***

  Our report is intended solely for the information and use of ABC Plan management, [*identify the body or individuals charged with governance of ABC Plan*], ABC Plan employers as of and for the year ended June 30, 20X5 and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

(AU-C section 9805 Question 1)

Cost-Sharing Plans – Employer Responsibilities

Report	• Complete and accurate data to plan
Evaluate	• Appropriateness of information used to record financial statement amounts • Whether plan auditor's report on schedules are adequate and appropriate for employer purposes

Verify & Recalculate	• Amounts in schedules specific to employer
	    • employer amount used in allocation percentage (numerator)
	    • recalculate allocation percentage of employer
	    • recalculate allocation of pension amounts based on allocation percentage of employer

Cost-Sharing Plans – Employer Auditor Responsibilities

Determine	• Sufficiency and appropriateness of audit evidence
Evaluate	• Whether plan auditor's report on schedules are adequate and appropriate for auditor purposes (e.g., evidence) • Review plan auditor's report and any related modifications • Evaluate whether plan auditor has necessary competence and independence • Determine whether named as specified user
Verify & Recalculate	• Amounts in schedules specific to employer • Employer amount used in allocation percentage (numerator) • Recalculate allocation percentage of employer • Recalculate allocation of pension amounts based on allocation percentage of employer
Test	• Census data submitted to plan

Status of Florida Retirement System

- DMS is working in conjunction with Auditor General in order to provide audited schedules of allocation to participating employers
- Goal is to issue audited allocation schedules for FYE June 30, 2014 in late spring 2015 (for entities with June 30, 2015 year ends); FYE June 30, 2015 schedules would be provided in December 2015/January 2016 (for entities with September 30, 2015 year ends)
- Expect allocation methodology to be based on actual contributions

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GASB 68 Implementation Guide

Q: A single-employer DB plan is used to provide pensions to the employees of the primary government and several of its component units. Does the component unit report as a single employer (Q 33 & 34)?

GASB 68 Implementation Guide *(Cont.)*

A: <u>No</u>

Component units in this circumstance would account for and report their participation in the pension plan as if they were cost-sharing employers.

GASB 68 Implementation Guide *(Cont.)*

Q: What guidance does GASB 68 provide regarding recognizing a portion of the net pension liability in fund financial statements for enterprise, internal service, or fiduciary funds (Q 36)?

GASB 68 Implementation Guide *(Cont.)*

A: GASB 68 does not establish specific requirements for allocation of the net pension liability to individual funds. However, consider NCGA Statement 1 which states that for proprietary and fiduciary funds, long-term liabilities that are “directly related to and expected to be paid from” those funds should be reported in those fund statements, respectively.

GASB 68 Implementation Guide *(Cont.)*

Q: If a single-employer's fiscal year-end is the same as the fiscal year-end of its pension plan, can the employer report a net pension liability as of a measurement date that is one year earlier than the "as of" date of the net pension liability reported by the plan at the same fiscal year-end (Q 37)?

GASB 68 Implementation Guide *(Cont.)*

A: Yes

This allows an employer to avoid a circumstance in which the employer financial reports potentially would be delayed awaiting information from the pension plan's financial report.

GASB 68 Implementation Guide *(Cont.)*

Q: If an employer participates in more than one DB plan, is the employer required to use the same measurement date for each net position liability (Q 38)?

GASB 68 Implementation Guide *(Cont.)*

A: No

GASB 68 specifies that the selection of the measurement date of the net pension liability should be applied separately to the pensions provided through each defined benefit pension plan.

GASB 68 Implementation Guide *(Cont.)*

Q: Is the actuarial valuation date required to have the same relationship to the measurement date in each reporting period (Q 45)?

GASB 68 Implementation Guide *(Cont.)*

A: <u>No</u>

Unlike the measurement date of the net pension liability, which is required to maintain the same relationship with the employer's fiscal year-end from period to period, the date of the actuarial valuation that is used to determined the employer's net pension liability at the measurement date can vary from period to period provided it is within 30 months and 1 day of the employer's fiscal year end.

GASB 68 Implementation Guide *(Cont.)*

Q: What are the components of the prior-period adjustment to beginning net position when GASB 68 is first implemented (Q 268)?

GASB 68 Implementation Guide *(Cont.)*

A: The prior-period adjustment should (a) remove the net pension obligation (asset) balance determined under GASB 27; (b) add the balance of the net pension liability as of the beginning of the initial period of implementation; (c) add a deferred outflow for the government's contributions made between the measurement date of the beginning net pension liability and the beginning of the fiscal year, if any; and (d) add balances associated with all other deferred outflows/inflows of resources, if applicable.

MOORE STEPHENS LOVELACE CPAs & ADVISORS

Looking Ahead

2014 and Beyond

- **Phase 2 of Project**
  - **OPEB not within scope of Statements 67/68**

MOORE STEPHENS LOVELACE CPAs & ADVISORS

Questions???