Welcome

GASB 68: Navigating the New Pension Reporting Requirements

- We will begin at the top of the hour
- Please have your computer speakers turned on
- All audio is streamed directly through the screens displayed through your computer speakers. There is not a dial-in number.
- For technical support, please use the Q&A window

Presenters:
Jim Lanzarotta, Partner
Kory Hoggan, Senior Manager
August 6, 2015

PRESENTERS

Jim Lanzarotta, CPA
Partner and Government National Practice Leader
Moss Adams LLP
(541) 225-6070
James.Lanzarotta@mossadams.com

Kory Hoggan, CPA
Senior Manager, Government Practice
Moss Adams LLP
(505) 878-7214
Kory.Hoggan@mossadams.com
WHAT WE’LL COVER

• Brief GASB 68 refresher
  ◦ Types of plans and related issues
  ◦ Pension amounts to be recognized
  ◦ Key dates
• Accounting entries for first year
• Required footnote and RSI disclosures
• What we know of our Western States pension systems and related resources

GASB 68
Brief Refresher – can’t hear this stuff enough!

THREE PLAN TYPES
1) Single Employer Plans
   ◦ One employer
   ◦ Investments dedicated to single employer
   ◦ Single actuarial evaluation
2) Agent Multi-Employer Plans
   ◦ Pooled investments
   ◦ Separate accounts maintained for each employer
   ◦ Separate actuarial valuations
3) Cost Sharing Multi-Employer Plans
   ◦ Employers share benefit costs and assets
   ◦ Recognize proportionate share
   ◦ Single actuarial valuation
WHAT TYPE OF PLAN IS YOURS?

• Washington – Cost Sharing Plan
• Oregon - Cost Sharing Plan
• California – both Cost Sharing and Agent Multi-employer Plans
• Idaho – Cost Sharing Plan
• Arizona – Cost Sharing Plan
• New Mexico – Cost Sharing Plan

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

<table>
<thead>
<tr>
<th>Total Pension Liability</th>
<th>Less: Fiduciary Net Position</th>
<th>Net Pension Liability</th>
</tr>
</thead>
</table>

SUMMARY OF EMPLOYER REPORTING

Employers will report the following elements:

- Net Pension Liability (NPL)
- Pension Expense
- Pension Deferred Outflows and Inflows of Resources
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

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

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)

CHANGES IN NPL RESULTING IN DEFERRALS

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

- Differences 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

<table>
<thead>
<tr>
<th>Deferred Outflow/Inflow</th>
<th>Amortization Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference in expected vs actual changes in economic and demographic factors</td>
<td>Average service life</td>
</tr>
<tr>
<td>Changes in assumptions about economic and demographic factors</td>
<td>Average service life</td>
</tr>
<tr>
<td>Employer contributions to pension plan after measurement date and before Employer year-end</td>
<td>Reduces NPL in subsequent year</td>
</tr>
<tr>
<td>Difference between actual and projected earnings on plan investments</td>
<td>5 years</td>
</tr>
</tbody>
</table>
Using Oregon PERS as an Example

### Dates

<table>
<thead>
<tr>
<th>Dates</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer Year End</td>
<td>June 30, 2015 for nearly all Oregon entities – December 31, 2015 for the few calendar YE entities</td>
</tr>
<tr>
<td>Measurement Date</td>
<td>June 30, 2014 for nearly all Oregon entities, June 30, 2015 for the December 31, 2015 fiscal year-end entities</td>
</tr>
<tr>
<td>Actuarial Valuation Date</td>
<td>December 31, 2012 for the June 30, 2015 fiscal year entities, December 31, 2014 for the December 31, 2015 calendar year-end entities</td>
</tr>
</tbody>
</table>

### Rate

<table>
<thead>
<tr>
<th>Rate</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>LT expected rate of return on plan investments – 7.75%</td>
</tr>
</tbody>
</table>

**Using Oregon PERS as an Example**

**Key Dates and Rates**

<table>
<thead>
<tr>
<th>Dates</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer Year End</td>
<td>Date of financial statements (predominately June 30, 2015)</td>
</tr>
<tr>
<td>Measurement Date</td>
<td>Measure NPL, pension expense, deferred outflows/inflows. No earlier than employer’s prior fiscal year end. (predominately June 30, 2014)</td>
</tr>
<tr>
<td>Actuarial Valuation Date</td>
<td>No earlier than 30 months and 1 day prior to the employer’s most recent year-end. Roll forward to Measurement Date.</td>
</tr>
</tbody>
</table>

**Rate**

<table>
<thead>
<tr>
<th>Rate</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>Single blended rate including: 1) LT expected rate of return on plan investments, and 2) High grade municipal bond rate</td>
</tr>
</tbody>
</table>

**Using Oregon PERS as an Example**

**Date Description**

- Employer Year End: June 30, 2015 for nearly all Oregon entities – December 31, 2015 for the few calendar YE entities.
- Measurement Date: June 30, 2014 for nearly all Oregon entities, June 30, 2015 for the December 31, 2015 fiscal year-end entities.

**Using Oregon PERS as an Example**

**Discount Rate**

- LT expected rate of return on plan investments – 7.75%
GASB 68
So...where do I get my numbers???

COST-SHARING PLANS—AICPA RECOMMENDATIONS

• Plan prepares and obtains an audit of a "schedule of employer allocations"
  
  ○ Use allocation representative of how contributions are determined - like covered payroll or required (actual) contributions as a simplified method
  
  ○ Projected future contributions could be used if necessary and is the GASB-preferred methodology

EXAMPLE SCHEDULE OF EMPLOYER ALLOCATIONS

| State of Washington — Employer Allocations |
| Organizations: | Washington State Department of Retirement Systems |
| Organization Name | Public Employees’ Retirement System Plan 1 |
| For the fiscal year ended June 30, 2013 — Page 3 of 49 |
| Organization Identification Number | Organization Name | Employer Contributions | Allocation Percentage |
| 1350 | State & Health Services Region 81 | $14,949.00 | 0.000000% |
| 1017 | Walla Walla Community College | 14,426.27 | 0.000002% |
| 1337 | Everett Community College | 14,857.54 | 0.000001% |
| 1453 | State & Health Services Region 02 | 13,957.54 | 0.000015% |
| 1910 | Clover Park Technical College | 13,548.14 | 0.000016% |
| 1419 | Special Government Center | 15,054.74 | 0.000025% |
| 0410 | Joint Legislative Systems Commission | 12,720.12 | 0.000021% |
| 1010 | Child Study & Treatment Center | 12,495.38 | 0.000019% |
| 1417 | SMPD Region 10, IA | 12,414.64 | 0.000019% |
EXAMPLE SCHEDULE OF EMPLOYER ALLOCATIONS

Cost-Sharing Plans—AICPA Recommendations

- Plan prepares “schedule of pension amounts for which plan auditor 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 collective pension amounts” excluding employer specific deferrals for the plan as a whole

EXAMPLE SCHEDULE OF EMPLOYER AMOUNTS

Schedule of Collective Pension Amounts

Public Employees’ Retirement System Plan 1
For the fiscal year ended June 30, 2014 ▼ Expressed in thousands
### EXAMPLE SCHEDULE OF EMPLOYER AMOUNTS

<table>
<thead>
<tr>
<th>Total Defined Benefits</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>$ 829,917</td>
<td>$ 0</td>
</tr>
<tr>
<td>$ 829,917</td>
<td>$ 829,917</td>
</tr>
</tbody>
</table>

### GASB 68
So...what are my debits/credits???
RECORD OPENING ENTRY

• Record net pension liability from beginning of measurement period
• Remove pre-GASB 68 (GASB 27) net pension asset or obligation balances
• Record deferred outflow for contributions made between July 1, 2013 and June 30, 2014, or between the beginning of your current fiscal year and the beginning of the measurement period (GASB 71)
• No other deferred outflows/infows recognized as part of the opening entry
• Offset to the above would be the adjustment to Net Position

FIRST YEAR PENSION ENTRIES

• Record pension expense for the measurement period by and through the combination of the following:
  o Adjust ending net pension liability to amounts per pension schedules
  o Adjust deferred inflows/outflows to ending balances per pension schedules
  o Reverse deferred outflow for contributions made between (July 1, 2013 and June 30, 2014 for most entities) and record deferred outflow for contributions made after the end of measurement period measurement date (July 1, 2014 to June 30, 2015 for most entities)

COST-SHARING PLANS—SAMPLE PENSION ENTRIES

• An Oregon Community College (CC)
• Member of Oregon PERS
• CC previously contributed proceeds of pension bonds to the plan in excess of the ARC
### COST-SHARING PLANS—SAMPLE PENSION ENTRIES

**ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Checks in transit</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>50,019</td>
</tr>
<tr>
<td>Reserves, net of allowance</td>
<td>1,077</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,431</td>
</tr>
<tr>
<td>Federal programs</td>
<td>2,431</td>
</tr>
<tr>
<td>Total current assets</td>
<td>54,888</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td></td>
</tr>
<tr>
<td>Postretirement investments</td>
<td>181,608</td>
</tr>
<tr>
<td>Pension asset</td>
<td>181,608</td>
</tr>
<tr>
<td>Net pension obligation</td>
<td>181,608</td>
</tr>
<tr>
<td>Net current assets</td>
<td>1,459</td>
</tr>
<tr>
<td>Total</td>
<td>183,067</td>
</tr>
</tbody>
</table>

**TOTAL ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>237,955</td>
</tr>
</tbody>
</table>

---

**COST-SHARING PLANS—SAMPLE PENSION ENTRIES**

And may be amended by an act of the Oregon Legislature.

The College's contribution to PERS includes the portion of the pension asset for the current period, which is funded by the College's annual required contribution. The pension asset is the result of the transfer of the College's pension bond proceeds to PERS to cover a portion of the College's share of the cost-sharing plans' unfunded actuarial liability. The pension asset is reported separately by PERS and is being used to pay a portion of the College's annual required contributions. Changes in the pension asset for the last fiscal year are below:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2014</td>
<td>Balance, July 1</td>
<td>113,105</td>
</tr>
<tr>
<td></td>
<td>Investment income</td>
<td>20,075</td>
</tr>
<tr>
<td></td>
<td>Contributions to cost-sharing plan</td>
<td>(123,180)</td>
</tr>
<tr>
<td></td>
<td>Balance, June 30</td>
<td>125,029</td>
</tr>
</tbody>
</table>

---

**COST-SHARING PLANS—SAMPLE PENSION ENTRIES**

---

---

---
COST-SHARING PLANS—SAMPLE PENSION ENTRIES

- Beginning NPL $71,843,710
- Deferred Inflows
  - Investment earnings (51,936,303)
  - Changes in proportion (1,983,679)
- Deferred Outflows
  - Fiscal year 2014 contributions 19,700,000
  - Fiscal year 2015 contributions 20,000,000
- Pension Expense (25,139,079)
- Ending NPL (Asset) (26,915,651)

---

COST-SHARING PLANS—SAMPLE PENSION ENTRIES

---

GASB 68
Footnotes...I thought that was limited to school papers???
### NOTE DISCLOSURES—EMPLOYERS

#### Descriptive Information
- Name and type of plan, identification of who administers,
- Benefit terms—types of benefits, key elements of benefit formula, classes of employees covered, legal authority
- Contributions—basis, authority, rates (% or % of pay), contributions in reporting period
- Availability of plan report

#### Significant assumptions/other inputs in TPL
- Inflation, salary changes, postemployment benefit changes, mortality assumptions, dates of experience studies
- Discount rate—rate, assumptions re: cash flows, how long-term rate determined, municipal bond rate (if applicable), periods to which each rate applied, assumed asset allocation/expected real rates of return, NPL at discount rate +/- 1%

### NOTE DISCLOSURES—EMPLOYERS

#### Pension expense in current reporting period

#### Deferred outflows/deferred inflows of resources
- Balances by source
  - Differences between expected and actual experience (TPL)
  - Changes of assumptions/other inputs (TPL)
  - Net difference between projected and actual earnings on pension plan investments
  - Individual items for cost-sharing and special funding situations
  - Employer's contributions subsequent to measurement date
  - Net impact on pension expense in each of the next 5 years and thereafter in the aggregate
  - Amount that will be reduction of NPL

### NOTE DISCLOSURES—EMPLOYERS

#### Key dates
- Measurement
- Actuarial valuation
- Roll-forward of liability to measurement date

#### Description of changes – in assumptions, benefit terms, impact of significant changes after measurement date

- Pension expense recognized for the period
RSI—COST-SHARING EMPLOYERS

- 10-year schedule
  - Employer’s proportion (%), proportionate share (amount) of collective NPL, covered-employee payroll, proportionate share as % of covered-employee payroll, pension plan’s net position as % of TPL
  - If statutory or contractual contribution requirements
    - Required contribution, contributions in relation to required, difference, covered-employee payroll, contributions as % of covered-employee payroll
  - Notes to RSI with significant changes
  - MD&A – don’t overlook disclosures of significant changes from prior years due to changes in reporting pensions
    - GASB 68 Disclosure Example

COST-SHARING PLAN ISSUES

- 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 suggested information, the employer auditor would not likely be able to accumulate sufficient appropriate audit evidence.
  - If that’s the case, the employer auditor should modify the audit opinion.
  - AU-C section 9500, Question 2

COST-SHARING EMPLOYER RESPONSIBILITIES

- Report
  - Complete and accurate data to plan
  - Appropriateness of information used to record financial statement amounts
  - Whether plan (auditor’s report) on schedules are adequate and appropriate for employer purposes
- Evaluate
  - 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
- Verify & Recalculate
AGENT PLANS: EMPLOYER RESPONSIBILITIES

- Complete and accurate data to plan
- Appropriateness of information used to record financial statement amounts
- Whether plan auditor’s report on schedules is adequate and appropriate for employer purposes
  - (AICPA ER White paper)
- Amounts in schedules specific to employer

AGENT PLANS: EMPLOYER RESPONSIBILITIES

- Actuarial assumptions with appropriate, reliable, and verifiable information
- Underlying census data used by the actuary
  - Obtain census data file to determine accurate and complete
  - Compare information to underlying payroll records and prior year census data file
  - Obtain roll forward from one year to the next and review reconciliation

GASB 68
Resources – can I get some gold and silver with that pension schedule???
WHERE CAN I GET ADDITIONAL INFORMATION?

• GASB website - Implementation Toolkit for Governments
• AICPA has issued the 2015 State and Local Accounting and Auditing Guide with an expanded chapter 13 on pensions – in addition to other information available at: www.aicpa.org
• Moss Adams has a number of webcasts available
• State pension system websites

WHERE CAN I GET ADDITIONAL INFORMATION?

• California CalPERS resources
  ◦ Certain agent multi-employer plan participant information is now available
  ◦ Cost-sharing employer member information is now delayed until September 8, 2015 (according to a CalPERS letter dated July 31, 2015)
• Arizona Retirement System
• Washington PERS

WHERE CAN I GET ADDITIONAL INFORMATION?

• Oregon PERS
  ◦ Information should be available soon
  ◦ Preliminary unaudited information provided to employer members in January 2015
• New Mexico
  ◦ Education Retirement Board (audited schedules nearly available)
  ◦ Public Employees Retirement Association (audited schedules nearly available)
• Idaho
  ◦ Not sure of the current status – audited information was initially released, but was recalled
• Other States – contact your Moss Adams representative
Questions & Comments

THANK YOU!

Jim Lanzarotta, Partner
541-225-6070
James.Lanzarotta@mossadams.com

Kory Hoggan, Senior Manager
(505) 878-7214
Kory.Hoggan@mossadams.com

BEFORE YOU GO...

More Moss Adams Insights and Resources Are a Click Away

Visit our Web site to find:
• More on-demand webcasts
• General and industry-specific articles, alerts, and perspectives
• RSS feeds
BIO

Jim Lanzarotta, Partner, is the national practice leader for the Firm’s State and Local Government Services Group. He is the AICPA’s representative to the Government Accounting Standards Advisory Council responsible for assisting the GASB with its project agenda, and providing feedback on proposed accounting standards and reporting issues. He completed six years of service in 2012, the last three as chair, of the AICPA State and Local Government Expert Panel responsible for reviewing all proposed accounting and auditing standards and providing feedback on behalf of the AICPA, as well as updates to AICPA publications including the Audit Guide to State and Local Governments, Audit Risk Alerts, and Practice Aids. 

jim.lanzarotta@mossadams.com
541-225-6070

---

BIO

Kory Hoggan has 20 years of accounting experience including 16 years in public accounting. He is a member of the firm’s Government Practice and Employee Benefit Plan Service Group. Kory also has extensive experience conducting and managing audits of governmental financial statements and public employee retirement systems. Kory served on the AICPA State & Local Government Expert Panel Task Force for Public Employee Retirement Systems and was a speaker at the 2013 – 2015 AICPA National Conference for Employee Benefit Plans.

kory.hoggan@mossadams.com
(505) 876-7214

---