

# ILLINOIS COMMUNITY COLLEGE CHIEF FINANCIAL OFFICERS SPRING 2015 CONFERENCE IMPLEMENTING GASB S68

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# IMPLEMENTING GASB S68

- » Where we have been
  - » GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (1994)
    - » Amended by GASB S-67
  - » GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* (1994)
    - » S-27 is still effective today
    - » Amended by GASB S-68

# IMPLEMENTING GASB S68

- » GASB Statement No. 27
  - » Accounting for pension costs based on a funding model
  - » Only liability or asset reported on the employers financial statements is a net pension obligation/asset (NPO/NPA)
    - » Annual required contribution (ARC) versus funded
      - »  $ARC > \text{funding} = \text{NPO}$
      - »  $ARC < \text{funding} = \text{NPA}$
    - » Not applicable to cost sharing plans (SURS)
      - » Fund contractual requirement
  - » Inconsistent with the accrual basis of accounting

# IMPLEMENTING GASB S68

- » GASB S-27 guidance for cost sharing plans
  - » Expense/expenditure for contractually required contributions to SURS
    - » Salaries paid from federal grants, certain other grants
    - » No liability on employers financial statement
    - » Minimal note disclosures
      - » Focus on required/actual contributions
      - » No liability disclosed in the notes
    - » No required supplementary information

# ***GASB S-24 Accounting and Financial Reporting for Certain Grants and Other Financial Assistance***

## » On-behalf payments

- » Payments made by one entity to another entity on-behalf of another entity's employees (salaries and benefits)
  - » Payments made by State of Illinois to the State University Retirement System on behalf of community colleges
- » Revenue and expense/expenditure in College's financial statements based on cash paid by the State

# IMPLEMENTING GASB S68

- » GASB Statement No. 67, *Financial Reporting for Pension Plans*.
  - » Applies to financial statements issued by individual pension plans
    - » SURS separately issued CAFR
  - » Applies to defined contribution pension plans
  - » Effective for fiscal periods beginning after June 15, 2013
- » GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.
  - » Applies to financial statements issued by state and local government employers that sponsor pension plans
  - » Effective for fiscal periods beginning after June 15, 2014 or fiscal years ending June 30, 2015

# IMPLEMENTING GASB S68

- » State university retirement system (SURS)
  - » Defined benefit
    - » Defined contribution option
  - » Multiple employer, Cost-sharing
  - » Special funding situation
    - » Office of the Comptroller has tentatively determined that the State of Illinois is legally responsible for pension contributions
      - » 40 ILCS 5/15-155, 156
  - » As of June 30, 2014, over 96.6% of employer contributions made by the State

# IMPLEMENTING GASB S68

- » GASB S68 changes the accounting, reporting and disclosures for colleges participating in SURS
  - » Report proportionate share of SURS net pension liability
- » Total pension liability
  - » Actuarial present value of projected benefit payments
    - » Promise to pay in the future
- » Less pension plans net position (SURS net assets)
- » Equals the total net pension liability
- » Measured as of pension plans fiscal year end
  - » June 30, 2014
    - » Rolled forward to June 30, 2015



# IMPLEMENTING GASB S68

- » Actuarial cost method to measure the total pension liability
  - » Entry age actuarial cost method is required
  - » Used by more than 84% of governments for funding per GASB research
- » SURS/State uses projected unit credit (PUC) to calculate actuarially determined contribution
- » No requirement to calculate the ARC
  - » Focus on funding
- » Replaced by actuarially determined contribution (ADC)
- » Will the real funded status please stand up!

# IMPLEMENTING GASB S68

- » Discount rate used to discount the projected benefit payments to a net present value
  - » Currently use an investment rate of return (IRR)
  - » Assumes sufficient assets have been set aside to pay future benefits
- » GASB S68 discount rate – single rate that reflects
  - » Long-term expected rate of return on plan investments to the extent that the plan's net position is sufficient to make projected benefit payments, assuming assets are invested to achieve that return
  - » Yield or index rate for 20 year, tax exempt GO municipal bond rated AA/aa or higher

# IMPLEMENTING GASB S68

- » SURS Discount rate calculation at June 30, 2014
  - » Investment rate of return 7.25%
  - » Bond index rate 4.29%
  - » Single discount rate (blended) 7.09%
  - » Impact on total pension liability and net pension liability (NPL)
- » Sensitivity analysis
  - » Impact on NPL from 1% swing in the discount rate

# IMPLEMENTING GASB S68

- » Calculating proportionate share of SURS net pension liability
  - » Your college's contribution as a % of total contributions
    - » Defined benefit only
    - » Excludes self managed plan
    - » Includes 6% penalty
  - » Multiply by NPL by this %
  - » Modified for special funding situation
    - » State contribution included in total contributions

# IMPLEMENTING GASB S68

- » Calculating proportionate share of SURS net pension liability
  - » NPL allocated to state (approximately 96%) and the rest to the employers
  - » NPL at June 30, 2014 is \$21.791 billion
  - » Estimated employer share \$869 million
    - » Your proportionate share is?
    - » \$8.69 million for each 1% proportionate share

# IMPLEMENTING GASB S68

- » Pension expense – cost of pensions earned during the period regardless of what was funded
  - » Full proportionate share of pension expense and deferred inflows/outflows related to change in net pension liability
    - » Includes employer's proportionate share
      - » Same calculation applied to NPL
    - » Include nonemployer expense (State) related to your employees
      - » Revenue recognized equal to nonemployer expense
  - » Income statement recognizes full expense (total cost) of pension

# IMPLEMENTING GASB S68

- » Recording proportionate share of SURS net pension liability and pension expense
  - » Uniform financial statements?
    - » No, per ICCB
  - » Education sub fund
    - » Reduction of fund balance
  - » Entity-wide
    - » Reduction of unrestricted net position
    - » Conversion sub fund

# IMPLEMENTING GASB S68

- » Note disclosures greatly increased
  - » Majority of existing note from SURS retained
    - » Type of plan
    - » Plan administration
    - » Benefits provided
    - » Contribution requirements
      - » Contribution rates (\$ or % of covered payroll)
    - » Refer reader to SURS CAFR



# IMPLEMENTING GASB S68

- » Note disclosures greatly increased
  - » Actuarial assumptions
  - » Discount rate used
    - » Change in rate from prior period
  - » Discount rate calculation
    - » Projected cash flow calculation
    - » Long term expected rate of return on plan assets and how it was developed
    - » Municipal bond rate

# IMPLEMENTING GASB S68

- » Note disclosures greatly increased
  - » Asset allocation of the plans investment portfolio
    - » Long-term rate of return by asset class
  - » Discount rate sensitivity analysis

# IMPLEMENTING GASB S68

- » Note disclosures greatly increased
  - » Total pension liability
  - » Plan net position
  - » Net pension liability
  - » Your proportionate share of NPL
  - » State's proportionate share of NPL related to your employees
  - » Total NPL related to your employees

# IMPLEMENTING GASB S68

- » Note disclosures greatly increased
  - » Determination of proportionate share
    - » Change since last measurement date
  - » Measurement date of TPL and if rolled forward, date of actuarial valuation
  - » Changes in actuarial assumptions
  - » Changes in benefit terms

# IMPLEMENTING GASB S68

- » Note disclosures greatly increased
  - » Pension expense recognized during period
  - » Balances in deferred inflows/outflows
  - » Amortization schedule for deferred inflows/outflows
  - » Amount of revenue recognized for portion of expense related to State (special funding)

# IMPLEMENTING GASB S68

- » Required Supplementary Information (RSI)
  - » Part of general purpose external financial statements (GPEFS)
  - » Report after the notes to financial statements
  - » 10 years required
  - » Prospective reporting allowed

# IMPLEMENTING GASB S68

- » RSI table on net pension liability (NPL)
  - » Your % share of NPL
  - » Your dollar amount of the NPL
  - » The State's dollar amount of the NPL related to your employees
  - » Total of the state and your NPL related to your employees
  - » Covered payroll
  - » NPL as a % of covered payroll
  - » Funded status of SURS

# IMPLEMENTING GASB S68

- » RSI table on actuarially determined contributions related to your employees
  - » Contractually required contributions
    - » Does not include contributions made by the state
  - » Contributions made
  - » Excess (deficiency) of contributions
  - » Covered payroll
  - » Contributions made as a % of covered payroll



# IMPLEMENTING GASB S68

- » Impact of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*
  - » Contributions made after measurement date of NPL but before fiscal year end
  - » Deferred outflow of resources

# IMPLEMENTING GASB S68

- » Audit issues
- » SURS auditors audit SURS as a whole
  - » Audit of proportionate share
  - » Audit of member balances
  - » Audit of census data
- » AICPA Issued 2 White Papers, 3 Audit Interpretations
  - » AU-C 500, Audit Evidence
  - » AU-C 805, Audits of Elements of Financial Statements

# IMPLEMENTING GASB S68

- » Audit issues
- » SURS prepares schedule of employer allocations and related notes to schedule
- » SURS prepares a schedule of pension amounts by employer
  - » Displays proportionate share of each member
  - » SURS auditors provide assurance AU-C 805
    - » In relation to opinion would not be sufficient
- » Audited data not provided by SURS
  - » Modified opinion at the employer level

# IMPLEMENTING GASB S68

- » Audit issues
- » Census data
  - » Tested by plan auditor
    - » SURS recent sample of 10 colleges
  - » Tested by employer auditor

# IMPLEMENTING GASB S68

- » Timing issues
- » SURS measurement date
  - » June 30, 2014
  - » For your June 30, 2015 CAFR
- » Initial information end of March 2015
  - » Need 2 years of information
    - » NPL beginning year
    - » NPL end of year
    - » Pension expense for the year

# IMPLEMENTING GASB S68

QUESTIONS?