



**GASB 68 in NC**  
*State and Local Government Finance Division*


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Sharon Edmundson

 North Carolina Department of State Treasurer  
State and Local Government Finance


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# GASB 68 in NC

## What are We Doing to Prepare?



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## GASB 68 in NC

- GASB's intent to separate accounting for the liability from funding
- Effective dates:
  - GASB 68 for years ending after June 15, 2015 – June 30, 2015 is **first** FYE affected in NC
- State implemented GASB 67 in June 30, 2014 CAFR



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## GASB 68 in NC

- What will it mean to implement GASB 68?
  - Each employer participant in cost-sharing plans will take its proportionate share of the net pension liability (or asset) and record that liability on its financial statements that are prepared using the economic resources measurement focus
  - Certain elements will be deferred either as deferred inflows or outflows, and amortized over set periods, again recorded only on those statements prepared using the economic resources measurement focus
  - Pension expense also will be calculated as a function of the proportionate share of liability and the deferrals, and again recorded only on those statements prepared using the economic resources measurement focus

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- In addition to some new numbers on your financials, there are additional note disclosure requirements and additional RSI
- State agencies that issue financial statements separate from the CAFR will have to implement for their June 30, 2015 financials

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- Four defined benefit multi-employer plans that state agencies and local governments participate in
  - TSERS
  - LGERS
  - Firefighters' and Rescue Squad Workers' Pension
  - Register of Deeds Supplemental Pension Plan
- Net Pension Liability (NPL) will be calculated for each State plan and apportioned across participant employers as of June 30 each year



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- Most data you will need will be provided by Retirement Division in conjunction with State's actuary and OSA
- SLGFD will provide templates for disclosures and financial statement presentation
- Data will be timely enough to not interfere with timely completion of financial statements

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Note disclosures for employer participants in cost-sharing plans:

- Description of plan, benefits provided, and contribution requirements
- That TSERS does not issue a stand alone report, that it is included in the State's CAFR and how to access a copy
- Assumptions used to measure total pension liability
- By reference to State's CAFR the elements of plan's financials and fiduciary net position
- Discount rate assumptions



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### Note Disclosures (continued):

- Participant employer's proportionate share of collective NPL
- If employer has special funding situation, information relative to employer and non-employer's portions of the employer's share
- Change in the proportion since the prior measurement date
- Measurement date, valuation date, and statement that update procedures were used to roll valuation date information to measurement date
- Brief description of changes in assumptions since prior measurement date that affect measurement of TPL
- Brief description of any changes between the current measurement date and the employers reporting date that will affect proportionate share and an estimate of that effect if possible

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### Note Disclosures (continued):

- The amount of pension expense recognized by the employer during the reporting period
- Employer's balances of deferred outflows and inflows related to pensions and classified into various categories
- A schedule that reflects the next five years' aggregate deferred inflows and outflows that will be recognized in pension expense and the amount of the employer's balance of deferred outflows that will be included as a reduction of the net pension liability (employer's contributions subsequent to measurement date)
- The amount of revenue recognized as support provided by nonemployer contributing entities (special funding)

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### RSI

- Determined as of measurement date, 10 year schedule:
  - Employer's proportionate share of NPL in % and \$ figures
  - Covered payroll
  - Employer's proportionate share in \$ of NPL as a % of covered payroll
  - Funded percentage of plan



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### RSI (continued):

- If you have a special funding situation, all of the above with data broken down between employer portion and non-employer portion
- Determined as of employer FYE, 10 year schedule:
  - Statutorily or contractually required employer contribution (excluding any amounts to finance specific liabilities)
  - Contributions recognized by the plan in relation to employer's contributions
  - Difference, if any, between the two
  - Employer's covered payroll
  - Contributions recognized by the plan as a % of employer's covered payroll

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# How Will All This New Data Be Audited?



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## GASB 68 in NC

- Guidance on auditing for 68
  - Two AICPA white papers issued February 24, 2014
  - Three Audit Interpretations issued by AICPA on April 22, 2014
  - *State and Local Government Auditing Guide*

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- Allocation method to be determined
- Sample chosen by OSA will be used to provide assurance on census data for calendar year 2013 (AICPA White Paper)
- Same sample will audit additional census data for DST

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- **Plan management** is responsible for completeness and accuracy of census data
- **Plan auditor** is responsible for testing
- Using a risk based approach, plan auditor can select a sample of employer participants and have employer's auditor test data as part of an attest engagement
- Plan auditor will determine which, if any, participant employers are a large enough percentage of the whole to be considered individually important – those employers would be tested each year
- Remaining employers will be tested on rotating basis unless they are determined to be so small individually that they are insignificant to the whole even when combined with all other employers also deemed to be insignificant
- Plan auditor responsible for testing data on inactives and retirees

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### Auditing Census Data – AICPA White Paper

- Certain pieces of the GASB 68 puzzle are reliant on the accuracy of the data that is either reported to the pension plan and controlled by the participant employers – payroll data for active employees - OR that is controlled by the plan itself – typically data on inactives and retirees

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- OSA requested sample of employer participants on both TSERS and LGERS perform census data testing for the following -
  - Eligibility
  - Compensation
  - Date of birth
  - Gender

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- DST requested additional census data testing by employer participants in the OSA sample
  - Class of employee – general, LEO, or firefighter
  - Date of hire/date employee first reported as employee of participant employer
  - Date of termination
- OSA conducted its audit of census data at plan level

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Reporting for Plans and Participant Employers in Multi-Employer Cost Sharing Plans – AICPA White Paper

- Significant cooperation between plan, participant employers and auditors will be needed to successfully implement
- Plan will
  - Calculate the allocation percentages
  - Determine collective pension amounts such as deferrals and calculate allocation of these amounts
  - Provide a schedule of allocations and related notes and will engage an auditor to obtain reasonable assurance on the schedule and related notes

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AICPA has issued three audit interpretations relevant to GASB 67/68

- AU-C Section 9500 – Is plan statement by itself sufficient for use by participant employers to successfully implement GASB 68?
  - No. Current strategy in NC is to have OSA issue a separate report of the required proportionate share schedule for NPL, the elements of pension expense including deferrals that come from the plan

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- AU-C 9500 – Can participant employer rely on the report by plan auditor as sufficient audit evidence?
  - Yes with consideration given by the participant employer that the plan auditor's report and accompanying schedules are adequate and appropriate for the participant auditor purposes. Participant auditor should recalculate % share

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- AU-C 9600 – Is the Plan a component (for group audit purposes) of the participant employer?
  - No
- AU-C 9805 – sample report that plan auditor can use for schedules

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- What are we doing to prepare?
  - Cross-divisional and cross-departmental team working on implementation – DST, OSA, OSC and the State's actuary
  - "Dry run" for 68 underway
  - Communications plan
  - Have met and will continue to meet regularly with OSA, OSC and the State's actuary to work through issues

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- OSA will issue a report with allocation schedule, related notes, and assurance for the NPL
- Actuary will be providing calculations for almost all deferrals and will track annual amortization amounts for employer participants
- OSA has identified participant employer auditors to do census data testing on a sample basis – for TSERS this was local school systems
  - Local government and school system auditors should be doing some of this testing already to make sure payroll expense and liabilities are correctly stated
  - In future years, participant employers will be chosen in the Spring

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### Training and Communication

- Training for finance staff and employer participant independent auditors
- Communications to citizens and elected officials
- Will be developing additional training tools including webinars, memos, illustrative financials, workbooks, FAQs, and possibly regional training sessions
- Have developed communications tool to help governments communicate all of this to citizens and elected officials – Q&A Memo #2015-04



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### Training and Communication

- We have a dedicated web page for 67 and 68 – accessible from SLGFD homepage - [https://www.nctreasurer.com/slg/lfm/audit\\_acct/Pages/Pension-Standards.aspx](https://www.nctreasurer.com/slg/lfm/audit_acct/Pages/Pension-Standards.aspx)
- Memos
  - 2014-12, introduction to the standards
  - 2015-04, Q&A on standards
  - 2015-06, clarification on implementation and auditing issues

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