Michigan School Accounting Manual Referent Group's **DRAFT final version 6/3/2016**
Supplemental Guidance on GASB Statement 68
Initial Publication June 2016

INTRODUCTION

This publication is designed to communicate information related to Michigan School Accounting Manual Referent Group's guidance to Michigan public schools implementing GASB Statement 68, (GASB 68) *Accounting and Financial Reporting for Pensions* and to assist auditors in auditing the applicable areas as published by the AICPA State and Local Governments Audit and Accounting Guide.

The Statement was effective for school districts in Michigan for the June 30, 2015 fiscal year-end. The Michigan School Accounting Manual Referent Group has developed this guidance for Michigan Public School Districts and their auditors. It was designed to supplement (not replace) Governmental Accounting Standards Board's *GASB Statement 68, the GASB Implementation Guide and the AICPA Audit Guide* referenced above resources to assist in completing a portion of your school district audit related to the accounting and auditing of the net pension liability and related deferred inflows and outflows.

This guidance is not intended to be all inclusive or replace professional judgement.

The GASB Implementation Guide and statements can be obtained at *www.**gasb**.org/ The AICPA Audit Guide can be purchase at www.**aicpa**.org/.*

In 2012 the Governmental Accounting Standards Board (GASB) published Statement No. 68, which changed the way public pension plans, like the Michigan Public School Employees Retirement System (MPSERS), discloses its pension information. GASB 68 also requires that individual districts provide certain disclosures within their financial statements that provide specific data relating to the district's pension plan. Any reporting unit that was required to report to ORS during the measurement period (initially October 1, 2013 - September 30, 2014) was also required to comply with GASB 68 in its annual financial statements beginning with the fiscal year ending June 30, 2015 and the requirements continue in years beyond.

There are certain facets under GASB 68 that are unique to Michigan and MPSERS so it is important that these nuances be considered to achieve consistent and reliable reporting across all Michigan districts. The impacts of Section 147(a) and Section 147(c) on district expenditures, as well as expenditures in Special Education, Food Service, and other funds capturing payroll costs must also be given consideration.

There are multiple parties involved with pulling all the pieces together. These parties include:

- School District
- Office of Retirement Services (ORS) including Michigan Public Schools Retirement System (MPSERS)
- Auditor General (AG)
- Actuary for MPSERS
- Michigan Department of Education (MDE) and Center for Performance and Information (CEPI)
- District external audit firm
- Michigan School Business Officials (MSBO)

Chapter 1 The School District's Role in Complying with GASB 68

The school district's role in complying with GASB 68 will require an understanding of both internal and external reporting systems.

Internally, the district must understand its accounting and payroll systems, both with respect to how Reportable Compensation is determined and resultant pension expenditures calculated and captured (particularly for the purpose of isolating only the defined benefit portion of the expense) as well as how the General Ledger functionality impacts the extraction and reporting of data to external parties such as ORS and CEPI (for the FID).

The district must also understand the various pension options and their related expenditures to be able to separate and distinguish what expenditures are covered by the reporting requirements. Understanding the primary retirement plans available is therefore essential. At the highest level, these are categorized simply as a DB "Defined Benefit" Plan, a DC "Defined Contribution" Plan and "Pension Plus" Hybrid Plan. Each type carries with it specific *employer* contributions of varying rates contributions (DB Pension, DC Pension and PHF "Personal Healthcare Fund"). Each type also carries with it specific *employee* contributions for those same items depending upon their elections, plus may also include a HCC "Health Care Contribution", also if elected by the employee. Business Managers should refer to the ORS materials available online for a more in-depth discussion of the Plans and rates.

"Section 147" is commonly used to refer to funds appropriated by the state of Michigan. Section 147(a) is state aid that is used to assist districts in paying for some portion of its pension expenditures. It is not directed towards any particular pension expenditure and does not have to be carved out into any special reporting category. It is simply a funding source to the district. Expenditures paid with this source are treated as their form dictates, for example, as part of total defined benefit contributions.

However, Section 147(c) refers to specific appropriations meant to pay for Unfunded Actuarial Accrued Liabilities (UAAL) in excess of the statutory cap of 20.96%. This cap on the district share of UAAL contributions was established by statue in 2012 (PA 300). Since then, districts have received a state aid amount based on the prior pension plan year payrolls reflecting an *approximate* 'contribution' percentage on current year payrolls. Districts must expense this amount but are direct-billed in an amount equal to the revenue. Because this amount represents the excess UAAL above the statutory district cap, such expense is generally deemed to not meet the definition of a 'statutory' contribution within the meaning of the Statement 68. The importance of this distinction cannot be overemphasized, as it impacts deferral calculations as well as required supplementary information disclosures discussed in later chapters.

Only employer contributions for the pension and health care fall into one of the following categories:

- Defined benefit pension expenditures fund level
- Defined benefit health care expenditures(OPEB) fund level
- Defined contribution pension expenditures
- Section 147(c) pension expenditures

Only the defined benefit pension expenditures are used to determine the GASB 68 pension expense and the deferred outflow amount discussed in Chapter 2.

A good working knowledge of the ORS reporting system is also essential, especially if the local accounting system does not provide sufficient detail to break out the defined benefit portion of the expenditure. Certain data may have to be downloaded from the ORS site in this case and may only be available for a limited time, so districts are advised to do so periodically throughout the year.

Accurate capture and maintenance of certain employee census data is also a critical element and district responsibility. At a minimum, the Employee Name, Plan Election, Gender, Date of Birth, Service Hours, and Type of Entry (New, Transfer, Retiree) must be accurate to ensure proper reporting is occurring and deductions and expenditures are calculated and submitted on a timely and accurate basis.

For external reporting purposes, year-end accruals and deferrals must be reported on the district's Statement of Position. The district must have an understanding of how to calculate and report the pension expense, deferred inflows and outflows, amortization of the inflows and outflows, and changes in the net pension liability. Calculation of pension expenditures attributable to post-retirement health benefits may also be required.

There are also very specific note disclosures that are the responsibility of the district. Disclosures required under earlier GASB pronouncements have not been eliminated. Those note disclosures must continue to be made. The remaining chapters provide more information on where to obtain the information to make necessary calculations, but ultimately the financial statements and notes are a district responsibility.

The Management Discussion and Analysis (MD&A) is impacted as well by GASB 68 and the district must address the impact implementation has on the district, particularly to the various subcategories (restrictions) and total Net Position.

Understanding certain key points, terms and requirements will aid the Business Manager in applying GASB 68 to the district financial statements.

- The impact is on the system-wide financial statements rather that the fund level financial statements.
- Allocation of the district-wide pension expense cannot be ignored. Pension expense may need to be allocated to general and special revenue funds, etc. as the allocation impacts the Statement of Activities.
- The impact this has upon equity in the government-wide statements should be considered. (The accepted interpretation (Z54.10) from the implementation guide, is that restrictions placed on Special revenue funds, such as food service, special education and vocational education funds at the fund level, should be reduced for their proportionate share of the net pension liability in calculating the restricted portion of net position. In many instances this will be zero as it cannot be negative.) This would be similar to how other accounting differences such as compensated absences have been handled in the past.
    - Whether or not allocations are made to these funds should be determined on the basis of whether or not the fund has *compensation in the current year*. This is the trigger for making an allocation.
    - The existence of compensation in prior periods does not trigger an allocation if on a current basis no compensation exists. For example, if food service is wholly privatized, that fund will no longer share the net pension liability because it no longer makes contributions.
    - It is the Committee's opinion that Restricted net positions cannot be negative and therefore, for example, a food service restriction is potentially going to be partially or wholly reduced when the fund's proportionate share is allocated.
- Statutorily required expense relates only to defined benefit pension contributions and does not refer to contributions for post-retirement health care, e.g. 3% subsidy.
- Unless the district is in arrears in making its ORS payments, the required disclosure of pension contribution deficiencies will likely be at or near zero but conversely those in arrears must disclose the amount.
- The general ledger and/or fund financial statements likely combine retirement-related items (DB and DC Pension, Healthcare and so-called "Section 147(c)" expense). Districts must take care to separate and address the GASB 68 reporting, allocations, and note disclosures to pertain to only DB Pension and exclude the other types).
- An ongoing amortization lapse schedule should be maintained in order to properly capture and recognize amortization of the various 'layers' of deferred inflows/outflows.

Journal Entries

Districts must make Journal Entries to record their share of the Net Pension Liability at year end, as well as to recognize deferred inflows and outflows. These adjustments are needed to produce the official system wide statements, including the statement of net position. Whether or not the entries must be recorded in the general ledger is a district decision and will depend upon whether the district populates the Long Term Debt liability in the FID from a file produced via the ledger, or hand-keys the GLTD (Fund 92) fields.

In Year One of GASB 68 implementation (restated to June 30, 2014) the impact upon Unrestricted Net Position was recognized and therefore (absent true prior period adjustments) all future entries will be aimed at recording the net change for the year. This can be accomplished by either reversing the prior year entries or recording new entries at the end of the current year, or by booking the net changes to the components. This example takes the latter approach:

At year end:	Debit	Credit
(Note: Amounts should be allocated by fund or fund type as necessary)		
Pension Expense	$ 4x, 4x	
Deferred outflow/inflow - ORS amount (do not net)	$ 4x,4x	$4x,4x
Deferred outflow/inflow - contributions		$ 4x,4x
Change in Net Pension Liability		$ 4x,4x
Amortization of deferred inflow/outflow		
	$4x,4x	$4x,4x

The source or calculation of these amounts is explained in the following chapters. Whether the entry is a debit or credit will vary depending upon the facts and circumstances of each district. The essential task is to convert the data available for the district at the end of the Pension System's year end (September 30th) to adjusted balances at June 30th (nine months later).

Chapter 2 Reporting Deferred Inflows and Outflows

GASB 68 requires recognition of deferred inflows of resources and deferred outflows of resources related to pensions (collectively referred to as "deferrals" in this section) in addition to recognition of the net pension liability. In general deferrals are included in 1 of 3 categories: deferrals related to investments in the pension plan, deferrals related to total pension obligation, and deferrals related to employer contributions subsequent to the measurement date of the plan (9/30 for MPSERS) to the Districts fiscal year end (the following 6/30). These deferrals impact the government wide financial statements, and fund level enterprise funds only.

Deferrals in the first 2 categories are amortized. Investment related deferrals are amortized over a 5 year period. Deferrals related to the total pension obligation are amortized over the average of the expected remaining service lives of all employees (active and inactive) in the Plan in the year the deferral was created. Each year, the deferral generated are amortized using the average of the expected remaining service lives of all employees calculated for that year. This creates a layering of deferrals. As an example, in year 2 of GASB 68, the deferrals determined in year 1 continue to be amortized and deferrals computed in year 2 are also amortized. This is analogous to how fixed asset depreciation works over time.

Specifically, deferred inflows/outflows of resources related to the total pension obligation are:

Differences between expected and actual experience

Changes of assumptions

Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions

Deferred inflows/outflows of resources related to investments are:

Net difference between projected and actual earnings on pension plan investments

Deferred Outflows related to Reporting Unit (school district) contributions:

Reporting Unit contributions subsequent to the measurement date

As stated earlier in this guidance, The School District, as a participating government in the cost sharing multiple employer plan (MPSERS, the Plan), assumes their proportionate share of the Plan obligation and proportionate share of Plan level deferred inflows and outflows. Annually MPSERS computes Plan level net pension liability and Plan level deferred inflows and outflows. MPSERS also computes the proportionate share percentage for each participating government, or reporting unit (school district). The proportionate share is applied to the Plan level amounts to determine the ending net pension liability and deferred inflow/outflow balances for each reporting unit. Similarly, pension expense is also allocated to each reporting unit using the same methodology. These amounts are provided annually at the ORS website where the GASB 68 information is provided (http://www.michigan.gov/psru/).

As noted earlier, while the investment related deferrals amortization always uses a 5 year period, the average of the expected remaining service lives of all employees is actuarially determined and will change annually. MPSERS method of amortizing the deferrals is to recognize a 1 full year of amortization in the year the deferral is created. To complete the accounting for the deferrals the following must be completed:

- Beginning of year deferral balances must be identified for each type of deferral, deferrals must be accounted for and amortized individually and should not be combined.
- Current year amortization calculated for each of the beginning balance deferral balances, using a straight line method

- Determination of current year deferred inflows and outflows and record balances
- Amortize a full year of current year deferred inflows and outflows
- Determine ending balances for current year deferred inflows/outflows

To assist in the accounting and reporting process, ORS has provided on the web site above the deferred inflow/outflow amortization tables for each year in which deferred inflows and outflow balances exist. The reporting unit (school district) can use this information to assist in validating the amounts recorded in the reporting unit financial statements. Note, the accounting and reporting of the amounts is the responsibility of the reporting unit. As a result the records supporting the amounts reported should be maintained by the district. The deferred inflow/outflow information by reporting unit is provided as an informational service of ORS and does not receive any specific audit assurance as part of the audit performed by the Office of the Auditor General. Maintenance and evaluation of the supporting information is ultimately the responsibility of the reporting unit (school district). The information provided by ORS will be helpful to the district in maintaining its own records.

Reporting the deferred inflows and outflows on the government wide financial statement (and enterprise funds, if applicable) generally should be reported gross. That is the reporting unit should refrain from netting deferred amounts in any of the deferral categories. While netting is allowed in limited circumstances (netting of investment related deferrals should be reported "net") maintaining separate records will ensure the accounting and reporting can be accomplished effectively. The financial statement disclosures require reporting the deferred inflow and outflow balances for each of the deferral categories.

In addition, GASB 68 requires display of the total annual amortization by year. This can be reported on a net basis.

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses

Plan Year Ended September 30	Amount
201x	
201y	
201z	
202a	
202b	

Reporting unit contributions to the Plan subsequent to the measurement date must also be recorded as a deferred outflow of resources related to pensions. The Reporting Unit must compute the pension contributions expensed in the fund level statements subsequent to 9/30 through the following 6/30, including consideration for accruals at June 30. The goal is to exclude fund level pension expense recognized subsequent to 9/30 from the expense reported in the government wide statements. Those contributions are instead reported as a deferred outflow of resources on the government wide statements, and enterprise funds if applicable. The Reporting Unit must compute and adjust the records to reflect the deferred outflow on the government wide statements.

Maintaining records documenting the Reporting Unit's process and conclusions will be essential since GASB 68 deferred inflows and outflows will only be adjusted once a year at year end.

Chapter 3 Auditing Procedures and the Role of the Auditor General (AG)

The references included in this chapter are from the AICPA Audit & Accounting Guide for State and Local Governments dated March 1, 2015. The audit guide is periodically updated so make sure you are working with the most recent version. All auditors should have a copy of this guide available for reference.

The main section from the guide we will be referencing is Chapter 13 Defined Benefit Pension Plans (Plan and Employer Considerations).

The following guidance will concentrate on information from:

- Part III - Employer Accounting, Financial Reporting, and Auditing Considerations: Cost-Sharing Employers
- Appendix B - Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting

Issue 1: What is required to be reported for a MPSERS School District?

13.151 Governments (employers) that provide defined benefit pensions through a cost-sharing multiple-employer (cost-sharing) plan such as (MPSERS) that is administered through a trust or equivalent arrangement are required to report their proportionate shares of the plan's collective net pension liability, pension expense, and certain deferred outflows of resources and deferred inflows of resources (pension amounts) in their financial statements in accordance with GASB Statement No. 68.

Recommendation - Become familiar with the reference material in this guide and become familiar with the related entries, numbers and disclosures in this area to complete your annual audit report. This section is designed to assist in describing the audit procedures necessary to provide assurance on these numbers used in the audited financial statements. The auditor of the employer has certain responsibilities when auditing the district. Appendix B referenced above will discuss the role of the Auditor General discussed later in this chapter. As previously mentioned in Chapter 1, it is the district's responsibility to have proper policies, procedures and internal controls in place to provide accurate accounting and census data information.

Issue 2: What are some of the challenges for the employer and auditor?

13.177 Each cost-sharing employer will be challenged about how to obtain all information to support its proportionate share of collective pension amounts reported in the employer's financial statements (that is, the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense). The employer's proportionate share of the collective pension amounts is a measure of the proportionate relationship of the employer to all employers and nonemployer contributing entities.

13.178 Similarly, employer auditors will be challenged in terms of obtaining sufficient appropriate evidence regarding the pension amounts included in employer financial statements. **AU-C section 500** states that the objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

13.179 **Appendix B** provides a two-part approach to address the challenges of employers and their auditors. The first part addresses employer allocations. The second part addresses a method to obtain reasonable assurance on the total net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities. **Appendix B** provides detailed explanations and illustrations. *The AG provides an annual report in Michigan using this two part approach.*

Recommendation - Be aware of the financial and non-financial information your auditor will need when auditing this area. Auditors will need to develop an audit plan to cover the required areas and also understand the role the auditor general has in this process. It is the referent group's opinion relying solely on the audit report issued by the Auditor General is not adequate to comply with AICPA with auditing standards.

Issue 3: Census Data - What audit testing is required?

13.182 Significant elements of census data are those elements that, either individually or when combined with other elements, could result in a material misstatement to one or more elements of either the employer's financial statements (that is, net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense). Significant elements of census data may include some or all of the following:

a. Name
b. Social Security number
c. Date of birth
d. Date of hire
e. Marital status
f. Pensionable wages
g. Service credits (periods of time worked)
h. Class of employee
i. Position or job code (or both)
j. Contributions
k. Gender
l. Date of termination or retirement
m. Spouse's date of birth
n. Employment status (active, inactive entitled to but not receiving benefits, retired).

The significance of some of these elements, all of these elements, or additional elements to any plan will be based on the impact that a particular census data element has on the measurement of a particular financial statement element.

13.183 The underlying records that support the census data for cost-sharing plans are typically maintained by different parties. ***The underlying records of active members are typically maintained by the employers.*** The underlying records of plan members who are no longer employed by the employers (that is, inactive members) are typically maintained by the plan. The underlying records of active members (of the applicable individual employer) maintained by the employer for purposes of testing the significant elements of census data that were reported to the plan during the period could be tested by the employer auditor, ***but access to information for the census data maintained by the plan, as well as census data related to active plan members of other cost-sharing employers, necessitates additional support from the plan and plan auditor.***

13.184 ***The employer auditor performs procedures to test the census data reported to the plan***, whereas the plan auditor performs procedures to test the census data maintained by the plan. The plan auditor performs procedures to test census data reported to the plan by the employers***. The substantive procedures over census data (for both the employer and the plan auditor) are ordinarily based on a concept that focuses on testing incremental changes (see paragraph 13.15) to the census data file since the prior actuarial valuation***, assuming (a) the prior year plan financial statements were audited, (b) there were no modifications to the auditor's report in the prior year related to census data, and (c) the auditor has concluded there is no significant risk of material misstatement due to incomplete or inaccurate census data from prior years. ***These procedures would ordinarily cover the census data reported to the plan during the year immediately preceding the actuarial valuation.***

Recommendation - The employer auditor needs to determine which elements of census data require testing. Typically date of birth, gender and type of plan enrolled are all sensitive elements, while others might also be considered sensitive. In addition when testing census data consideration needs to be given to higher risk areas such as new employees entering the plan or those retiring. Consideration of the testing to be performed by the plan auditor the (AG) should also be considered. The Auditor General does do census data as part of their procedures to issue their report; ***however, the district auditor cannot rely solely on the tests performed by the Auditor General.*** Certain employee information might not be available to the employer. In addition when testing census data online this is a live file and date of most recent change is not available and should be considered as part of the risk assessment.

Issue 4: Relevant assertions and audit procedures

13.185 The relevant assertions relating to net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense for cost-sharing employers include the following:

a. Member census data reported to the plan is complete and accurate.
b. Member census data accumulated and maintained by the plan is complete and accurate.
c. Actuarial assumptions used in computing the total pension liability are in accordance with **GASB Statement No. 68** and the Actuarial Standards of Practice.
d. The employer's proportionate share of the collective pension amounts, including net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense have been properly determined and recorded in the financial statements in accordance with **GASB Statement No. 68** and in the proper period.
e. The employer's deferred outflows of resources and deferred inflows of resources for contributions made after the measurement date, changes in proportion, and differences between the employer's actual contributions and its proportionate share of all employer contributions have been properly determined and recorded in the financial statements in accordance with **GASB Statement No. 68** and in the proper period and are properly disclosed.

Example Audit Procedures to Consider

13.187 The following are examples of substantive procedures for auditing net pension liability, deferred outflows of resources and deferred inflows of resources, and pension expense for cost-sharing employers based on the suggested two-part approach included in **appendix B** (excluding census data, which are discussed in **paragraph 13.188**):

a. Obtaining the actuarial valuation report used to measure the collective total pension liability for the plan as of the measurement date based on **GASB Statement No. 68.**
b. Evaluating the professional qualifications of the actuary, including his or her competence, capabilities, and objectivity as required by **paragraph .08** of AU-C section 500. If the actuary is not known to the auditor, consider other factors that might provide information regarding the actuary's qualifications, such as (i) the actuary's membership in a recognized professional organization, (ii) the number and types of public pension plans served, including years of experience, and (iii) the opinion of other actuaries whom the auditor knows to be qualified regarding the actuary's professional qualifications. The AG provided their consideration of this matter and provided it to local auditor's upon request.
c. Reading the actuarial certification for potential exclusions from the scope of the actuary's work or qualifications on the actuary's certification relating to actuarial methods, actuarial assumptions, or census data.
d. Determining whether the actuarial valuation was performed as of a date no more than 30 months and 1 day of the employer's fiscal year-end.
e. Evaluating whether the methods and assumptions used in determining the total pension liability are in accordance with **GASB Statement No. 68** and Actuarial Standards of Practice and are the same as those used by the plan.
f. Obtaining the audited schedule of employer allocations and comparing and recalculating amounts specific to the employer to the employer's records.
g. Obtaining the audited schedule of pension amounts and recalculating the allocated pension amounts for the employer by multiplying the collective pension amounts for the plan by the employer's proportionate share (allocation percentage).
h. Evaluating whether the plan auditor's report on the schedule of employer allocations and the schedule of pension amounts is adequate and appropriate for the employer auditor's purposes.
i. Evaluating whether the plan auditor has the necessary competence and objectivity for the employer auditor's purposes.

j. Obtaining the audited plan financial statements and performing the following:
   1) Agreeing or reconciling net pension liability reported in the schedule of pension amounts in item g to the net pension liability disclosed in the notes to the plan financial statements
   2) Agreeing the fiduciary net position component of the net pension liability disclosed in the notes to the plan financial statements to that reported in the plan statement of fiduciary net position
k. Obtaining a detailed schedule of employer-specific deferred outflows of resources and deferred inflows of resources by type (including contributions made after the measurement date, changes in proportion, and differences between the employer's actual contributions and its proportionate share of total employer contributions) and by period and performing the following:
   1) Testing contributions made after the measurement and before the employer's year-end and comparing to amount reported as deferred outflows of resources
   2) Agreeing recognition (amortization) schedules and recognition (amortization) periods for prior period deferral amounts to prior year working papers and audited financial statements
   3) Recalculating the current year gross incremental deferrals for changes in proportion and differences between the employer's actual contributions and its proportionate share of total employer contributions
   4) Recalculating the recognition (amortization) amount for the current period incremental deferrals for changes in proportion and differences between the employer's actual contributions and its proportionate share of total employer contributions for example, by dividing the current respective gross incremental deferrals by the current year amortization period for the plan
l. Recalculating the mathematical accuracy of the total deferred outflows of resources and deferred inflows of resource by type as of the measurement date and the total recognition (amortization) for the measurement period based on the components tested in items g and k.
m. Recalculating pension expense based on the employer's specific pension expense in the schedule of pension amounts from item g plus the recognition (amortization) amount of employer-specific deferred outflows of resources and deferred inflows of resources from item k.

Census Data

13.188 The following are examples of substantive procedures for testing the completeness and accuracy of the census data reported to the plan (active members):

a. Identifying the payroll registers and payroll cycles for all reporting units of the government
b. Obtaining the population of employer (payroll) transmission reports submitted to the plan during the year and performing the following:
   1) Evaluating whether the population of employer (payroll) transmission reports received is complete based on an understanding of the employer's payroll registers and cycles
   2) Selecting a sample of employer (payroll) transmission reports to verify the mathematical accuracy of reports and whether the correct contribution rates were used
c. Obtaining a list of new employees hired during the year from the employer and performing the following procedures:
   1) Selecting a sample to determine that eligible new employees were appropriately enrolled in the plan and properly included in the employer (payroll) transmission reports
   2) For each employee selected, verifying accuracy of the significant elements of census data reported to the plan upon enrollment to the payroll and personnel records (for example, name, Social Security number, date of birth, gender, date of hire, marital status, and position or job code)

The employer auditor will likely need to obtain the enrollment forms or the equivalent information from the plan.

d. Obtaining a list of status changes reported to the plan during the year (other than those reported through the employer [payroll] transmission reports) and selecting a sample to determine that they were appropriate based on the relevant plan criteria and underlying payroll and personnel records
e. Selecting a sample of active members and performing the following procedures:

Consider selecting a sample from the employer's payroll registers throughout the year and a sample from the employer (payroll) transmission reports throughout the year.

f.

1) Agreeing details included in the applicable employer (payroll) transmission report (for example, name, position or job code, periods of time worked, pensionable wages for the period, employer contribution for period, and employee contribution for the period) to the payroll register (or vice versa), and agree the underlying information to the payroll and personnel records
2) Evaluating whether the selected employee is eligible to participate in the plan based on the eligibility criteria included in the plan document (state statutes)
3) Recalculating service credits

Recommendation - Develop audit procedures taking into consideration census data needed to be tested, the type of testing being performed as well as other recommended procedures list above as considered necessary. Keep in mind the AG report as detailed in Appendix B takes into account both reports being issued similar to last year.

Issue 5: The auditor's general role in providing audited information to be relied on by the employer auditor.

Appendix B from Chapter 13 of the AICPA addresses these issues. Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting

Employer Issues-Recognizing Proportionate Share of Collective Pension Amounts and Related Auditor Issues

B-03 Each employer participating in a cost-sharing plan needs to obtain all necessary information to support its proportionate share of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. In order to calculate each employer's proportionate share of these collective pension amounts, individual proportions need to be determined by measuring each employer against the total of all the employers participating in the plan.

B-04 Similarly, employer auditors need to obtain sufficient appropriate evidence in order to opine on the pension amounts included in employer financial statements. **AU-C section 500**, Audit Evidence (AICPA, Professional Standards), states that the objective of the auditor is to design and perform audit procedures that enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Solution for Allocation of Pension Amounts
B-11 The AICPA guide recommends that cost-sharing plans calculate each employer's allocation percentage and collective pension amounts. This approach promotes consistency in the calculation as well as minimizes the overall effort and cost incurred by all parties involved. The following discussion provides details regarding this recommendation.

Schedule of Pension Amounts by Employer

B-15 In addition to the recommended schedule of employer allocations, this guide also recommends that cost-sharing plans prepare a schedule of pension amounts by employer and related notes to the schedule. This guide further recommends the plan engage its auditor to obtain reasonable assurance and report on total net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities included in this schedule. Such a schedule may be presented as a stand-alone schedule or included as a supplemental schedule to the plan's financial statements. Regardless, the plan auditor forms an opinion on each element described previously and reports on the schedule in accordance with **AU-C section 805**. This is currently being performed by the AG in Michigan.

Employer and Employer Auditor Responsibilities

B-20 *The employer is solely responsible for its financial statements and, therefore, is responsible for evaluating the information used to recognize and disclose pension amounts in its financial statements*. Similarly, *the employer auditor is solely responsible* for the audit of the employer's financial statements and, therefore, *is responsible for determining the sufficiency and appropriateness of audit evidence necessary to reduce audit risk to an appropriately low level*. ***Nevertheless, the employer and employer auditor may use the plan auditor's report on the schedules to provide evidence that the pension amounts allocated to the employer and included in the employer's financial statements are not materially misstated.***

B-21 Before using the work of the plan auditor as evidence, the employer auditor should evaluate whether the plan auditor's report and accompanying schedules are adequate and appropriate for the employer auditor's purposes. For example, the employer auditor may review the plan auditor's report and any related opinion modifications and assess other matters discussed in the report. *Additionally, the employer auditor should evaluate whether the plan auditor has the necessary competence and independence for the employer auditor's purposes. It should be documented the AG is competent to perform this audit for state-wide use.*

B-22 Further, the employer and employer auditor have a responsibility to verify and recalculate amounts specific to the applicable employer, including the employer amount used in the allocation percentage (that is, the numerator of the calculation), recalculate the allocation percentage for the employer, and recalculate the pension amounts allocated to the employer based on the allocation percentage. In addition, the employer has responsibilities related to the census data reported to the plan as well as determining the appropriateness of the work of the actuary. Auditing considerations for cost-sharing employers are discussed in **part III**.

Recommendation- The employer and employer auditor should obtain the AG audit report with the two schedules referenced above and complete the procedures indicated above to determine the allocations at the employer level are appropriate for use in preparing the annual audited financial statements.

Chapter 4 Notes to Financial Statements and RSI

GASB 68 requires schools to include more information in the notes to financial statements about the pension plans they are a part of than has been required in the past. GASB 68 has required disclosures for both defined benefit plans and defined contribution plans.

Michigan schools participate in the following pension plans administered by ORS:

- MPSERS which is a cost-sharing, multiple employer, state-wide, **defined benefit** public employee retirement plan.
- State of Michigan 401k Plan which is a deferred compensation fund and a **defined contribution** retirement fund.

Issue 4-1: where do I begin in my quest to draft notes to financial statements that meet the requirements of GASB 68?

GASB 68 paragraphs 74-80 address the required notes to financial statements for cost sharing employers for defined benefit pensions and defined contribution pensions required notes to financial statements are addressed in paragraph 126. Illustration 3 - Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer and Illustration 6 - Note Disclosures for an Employer with Defined Contribution Pensions are provided in GASB 68 Appendix C Illustrations.

<u>RECOMMENDATION 4-1</u>

Defined Benefit Plan

The GASB 68 Illustration 3 is a generic sample and while it includes all the required note disclosure components it would require much editing to include the appropriate information specific to the MPSERS defined benefit pension plan.

For the defined benefit plan we believe a better option is to begin with the sample language regarding the Notes to Financial Statements provided by ORS. ORS has a GASB 68 section on their website where you can obtain this information. http://www.michigan.gov/psru/0,2496,7-284-69905---,00.html

TIP: Do not just copy and paste the ORS information and use it as your own. The information still needs to be read and edited to make sure it is appropriate for your school and financial statements. Compare the ORS version to both the GASB Illustration 3 and GASB 68 paragraphs 74-80, included below, to make sure no required components are missing. You may find the ORS sample includes more than is required and you may want to edit for that also.

Notes to financial statements - all cost-sharing employers

74. The total (aggregate for all pensions, whether provided through cost-sharing, single-employer, or agent pension plans) of the employer's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements.

75. The information identified in paragraphs 76-80 should be disclosed for benefits provided through each cost-sharing pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

Pension plan description

76. The following information should be disclosed about the pension plan through which benefits are provided:

a. The name of the pension plan, identification of the public employee retirement system or other entity that administers the pension plan, and identification of the pension plan as a cost-sharing pension plan.
b. A brief description of the benefit terms, including (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the pension formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, and ad hoc postemployment benefit changes, including ad hoc COLAs; and (5) the authority under which benefit terms are established or may be amended. If the pension plan is closed to new entrants, that fact should be disclosed.
c. A brief description of contribution requirements, including (1) the basis for determining the employer's contributions to the pension plan (for example, statute, contract, an actuarial basis, or some other manner); (2) identification of the authority under which contribution requirements of employers, nonemployer contributing entities, if any, and employees are established or may be amended; and (3) the contribution rates (in dollars or as a percentage of covered payroll) of those entities for the reporting period. Also, the amount of contributions recognized by the pension plan from the employer during the reporting period (measured as the total of amounts recognized as additions to the pension plan's fiduciary net position resulting from actual contributions and from contributions recognized by the pension plan as current receivables), if not otherwise disclosed.
d. Whether the pension plan issues a stand-alone financial report (or the pension plan is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report (for example, a link to the report on the public employee retirement system's website).

Information about the employer's proportionate share of the collective net pension liability

Assumptions and Other Inputs

77. Significant assumptions and other inputs used to measure the total pension liability, including assumptions about inflation, salary changes, and ad hoc postemployment benefit changes (including ad hoc COLAs) should be disclosed. With regard to mortality assumptions, the source of the assumptions (for example, the published tables on which the assumption is based or that the assumptions are based on a study of the experience of the covered employees) should be disclosed. The dates of experience studies on which significant assumptions are based also should be disclosed. If different rates are assumed for different periods, information should be disclosed about what rates are applied to the different periods of the measurement.

78. The following information should be disclosed about the discount rate:

a. The discount rate applied in the measurement of the total pension liability and the change in the discount rate since the prior measurement date, if any
b. Assumptions made about projected cash flows into and out of the pension plan, such as contributions from employers, nonemployer contributing entities, and employees
c. The long-term expected rate of return on pension plan investments and a brief description of how it was determined, including significant methods and assumptions used for that purpose
d. If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate
e. The periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate applied to determine the discount rate
f. The assumed asset allocation of the pension plan's portfolio, the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed
g. Measures of the employer's proportionate share of the collective net pension liability calculated using (1) a discount rate that is 1-percentage-point higher than that required by paragraph 64 and (2) a discount rate that is 1-percentage-point lower than that required by paragraph 64.

The Pension Plan's Fiduciary Net Position

79. All information required by this and other financial reporting standards about the elements of the pension plan's basic financial statements (that is, all information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position) should be disclosed. However, if (a) a financial report that includes disclosure about the elements of the pension plan's basic financial statements is available on the Internet, either as a stand-alone financial report or included as a fiduciary fund in the financial report of another government and (b) information is provided about how to obtain the report, reference may instead be made to the other report for these disclosures. In this circumstance, it also should be disclosed that the pension plan's fiduciary net position has been determined on the same basis used by the pension plan, and a brief description of the pension plan's basis of accounting, including the policies with respect to benefit payments (including refunds of employee contributions) and the valuation of pension plan investments should be included. If significant changes have occurred that indicate that the disclosures included in the pension plan's financial report generally do not reflect the facts and circumstances at the measurement date, information about the substance and magnitude of the changes should be disclosed.

Other information

80. The following additional information should be disclosed, if applicable:

a. The employer's proportionate share (amount) of the collective net pension liability and, if an employer has a special funding situation, (1) the portion of the nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability that is associated with the employer [19] and (2) the total of the employer's proportionate share (amount) of the collective net pension liability and the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the employer
b. The employer's proportion (percentage) of the collective net pension liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date
c. The measurement date of the collective net pension liability, the date of the actuarial valuation on which the total pension liability is based, and, if applicable, the fact that update procedures were used to roll forward the total pension liability to the measurement date
d. A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date
e. A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date
f. A brief description of the nature of changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability, and the amount of the expected resultant change in the employer's proportionate share of the collective net pension liability, if known
g. The amount of pension expense recognized by the employer in the reporting period
h. The employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as follows, if applicable:
    1) Differences between expected and actual experience in the measurement of the total pension liability
    2) Changes of assumptions or other inputs
    3) Net difference between projected and actual earnings on pension plan investments
    4) Changes in the employer's proportion (paragraph 54) and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the pension plan) and the employer's proportionate share of contributions (paragraph 55)
    5) The employer's contributions to the pension plan subsequent to the measurement date of the collective net pension liability

i. A schedule presenting the following:
   1) For each of the subsequent five years and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in subparagraph (h) that will be recognized in the employer's pension expense
   2) The amount of the employer's balance of deferred outflows of resources in subparagraph (h) that will be included as a reduction of the collective net pension liability

j. The amount of revenue recognized for the support provided by nonemployer contributing entities (see paragraphs 58 and 95), if any.

Defined Contribution Plan

We believe the GASB 68 Illustration 6 makes a good starting point for drafting the notes for the defined contribution plan. A good place to get the information needed to customize this disclosure is from the State of Michigan 401k Plan website. See the following link. This website provides access to the plan document and most recent audited financial statement. GASB 68 paragraph 126 is also included below for your use to make sure all required components are included in your note.
https://stateofmi.voya.com/einfo/planinfo.aspx?cl=michigan&pl=640003PU&page=plan_informationpublications401k&domain=stateofmi.voyaplans.com&s=&d=fc284654415932588a7ba8431c2e16d2c6850535

TIP: The required defined contribution plan disclosure regarding the amount of forfeitures reflected in pension expense in the reporting period is probably immaterial and, if so, is not required to be disclosed.

Notes to Financial Statements

126. The following information should be disclosed in notes to financial statements about each defined contribution pension plan to which an employer is required to contribute:

a. The name of the pension plan, identification of the public employee retirement system or other entity that administers the pension plan, and identification of the pension plan as a defined contribution pension plan
b. A brief description of the benefit terms (including terms, if any, related to vesting and forfeitures and the policy related to the use of forfeited amounts) and the authority under which benefit terms are established or may be amended
c. The contribution (or crediting) rates (in dollars or as a percentage of salary) for employees, the employer, and nonemployer contributing entities, if any, and the authority under which those rates are established or may be amended
d. The amount of pension expense recognized by the employer in the reporting period
e. The amount of forfeitures reflected in pension expense recognized by the employer in the reporting period
f. The amount of the employer's liability outstanding at the end of the period, if any

Issue 4-2: Where do I get the data to complete/update the notes once the narrative portion is prepared?

Much of the data in the notes to financial statements is not available at the school level. The information that is available at the school level is the pension contributions for both the defined benefit and defined contribution plans and the payables to the pension plans at the reporting date.

RECOMMENDATION 4-2

Most of the data will come from two separate audited reports issued by MPSERS.

- Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015
- Schedules of Employer Allocations and Schedule of Collective Pension Amounts for Fiscal Year Ending September 30, 2015

The ORS GASB 68 website also notes they may provide some data to each school via a letter through the Data Exchange Gateway.

These audited reports and additional letter should give you the information necessary to update most of the data components of the notes. Do not forget to update the actuarial assumptions if those have changed since the prior year.

Issue 4-3: State Aid - Section 147(c)

How does the receipt of Section 147(c) monies and the subsequent payment of Section 147(c) monies to ORS affect the reporting/disclosure of pension contribution payments?

RECOMMENDATION 4-3

Section 147(c) monies should be considered contributions to MPSERS. Annually ORS determines how these payments are allocated between OPEB and pension. For the September 30, 2015 plan year (June 30, 2016 fiscal year) 100% of these contributions were allocated to OPEB. For the September 30, 2016 plan year 64.95% are allocated to the pension plan and are considered part of the pension statutory required contribution. As a result, when a portion of the 147c amount is considered part of the statutory required contribution, it should be disclosed in the contribution section of the notes to financial statements because GASB 68 paragraph 76.c. describes the contribution amount as "…measured as the total of amounts recognized as additions to the pension plan's fiduciary net position…".

For the September 30, 2016 measurement period, ORS considers 64.95% of section147(c) payments to be statutorily required pension contributions. Section 147(c) monies should be excluded from the RSI Schedule of Contributions for the June 30, 2016 yearend audit as these amounts were allocated to OPEB. GASB 68 paragraph 81.b (1) says "statutorily or contractually required employer contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan." ORS has stated Section 147(c) monies are **not** statutorily required employer **pension** contributions. For the September 30, 2015 plan year as these payments were classified as OPEB payments.

GASB 68 paragraph 58, included below, applies to Section 147(c) monies and in the Statement of Activities the Section 147(c) revenues should equal the Section 147(c) expenses attributed to OPEB for the period. The committee recommends schools report **64.95% Section 147(c) monies as deferred outflows and a similar amount as deferred inflows at June 30, 2016 since that portion of the 147c payment related to pension contributions**. Section 147(a) monies are not related to a specific ORS payment or contribution expense and should be excluded from the contributions disclosures.

ORS has determined section 147(c) payments through September 30, 2015 do not impact pension expense because these payments were allocated to OPEB. For the plan year ending September 30, 2016, 64.95% of the147(c) payments from October 1, 2015 through June 30, 2016 including accruals are considered statutory pension contributions. This is a change from the previous year where 147(c) payments were not considered statutory payments to the pension plan as they were to fund OPEB contributions.

What does this mean for the June 30, 2016 audit? 64.95% of 147(c) contributions should be included in the deferred outflow payment (contributions made subsequent to the measurement date) calculation similar to other payments from October 1, 2015 through June 30, 2016. A similar amount should be recorded as a deferred inflow to comply with GASB statement 68 paragraph 58 as stated below. In years subsequent to June 30, 2017 the applicable percentage for 147c payments will need to be determined and allocated similar to above.

Beginning with the June 30, 2017 audit 64.95% of the 147(c) payments should be included as applicable in the RSI sections.

Support of Nonemployer Contributing Entities That Are Not in a Special Funding Situation

58. Revenue should be recognized in an amount equal to (a) contributions to the pension plan from nonemployer contributing entities that are not in a special funding situation to separately finance specific liabilities of the individual employer to the pension plan and (b) the employer's proportionate share of the contributions to the pension plan from nonemployer contributing entities for purposes other than the separate financing of specific liabilities to the pension plan.

Issue 4-4: Payables to the Pension Plan

GASB 68 requires the school to include in the notes to financial statements the amount of payable and liability at the end of the reporting period to the defined benefit pension plan and the defined contribution plan, respectively.

How is a payable and liability at the end of the reporting period defined for these disclosure requirements?

Does the payable and liability relate only to pension obligations for payrolls paid prior to the end of the reporting period or does it include retirement obligation accruals related to accrued wages to be paid in July and August after the fiscal year end and subsequent July and August Section 147(c) payments?

RECOMMENDATION 4-4

The disclosure requirement for the defined benefit plan is described in GASB 68 paragraph 122 and for the defined contribution plan the requirement is described in GASB 68 paragraph 126.f. Both paragraphs are included below. There is very little guidance beyond these two paragraphs in GASB 68.

We are not making a specific recommendation on this issue, but we recommend that schools disclose how they are defining the payable and liability and what is included or excluded from the amount disclosed.

Notes to Financial Statements

122. The amount of payables to a defined benefit pension plan outstanding at the end of the reporting period, significant terms related to the payables, and a description of what gave rise to the payable (for example, legally required contributions to the pension plan, a contractual arrangement for contributions to a cost-sharing pension plan related to past service cost upon entrance into the arrangement, or a contractual arrangement for contributions to the pension plan related to a change of benefit terms enacted by an individual cost-sharing employer) should be included in notes to financial statements.

Notes to Financial Statements

126. The following information should be disclosed in notes to financial statements about each defined contribution pension plan to which an employer is required to contribute:

- The amount of the employer's liability outstanding at the end of the period, if any.

TIP: If there is no payable or liability at the end of the reporting period, no disclosure is necessary. We believe this will often be the case as payments to MPSERS are due within seven days after each pay period. Some Districts will elect to disclose the amounts of the normal June payment paid in July the pension accrual for summer pay and the remaining liability for the summer section 147 payments. We recommend disclosure of what is included be included when necessary.

Issue 4-5: GASB 68 effect on OPEB reporting

The sample notes to financial statements provided by both GASB 68 and ORS do not include any information related to OPEB. Prior year's financial statements had a note disclosure section for OPEB (primarily postemployment healthcare). Does this mean the disclosure is no longer required?

RECOMMENDATION 4-5

GASB 68 does NOT affect reporting for OPEB. OPEB should continue to be reported in the notes to financial statements in accordance with GASB 45 paragraph 24, included below. Often the pension and OPEB information is included in the same note to the financial statements. Be careful when updating the pension section of the note that the OPEB section does not get inadvertently removed.

GASB 75 will change the reporting for OPEB in the June 30, 2018 financial statements.

Notes to Financial Statements

24. Employers should include the following information in the notes to their financial statements 19 for each defined benefit OPEB plan in which they participate, regardless of the type of plan (except as indicated). Disclosures for more than one plan should be combined in a manner that avoids unnecessary duplication.

a. Plan description.
   1) Name of the plan, identification of the public employee retirement system (PERS) or other entity that administers the plan, and identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit OPEB plan.
   2) Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended.
   3) Whether the OPEB plan issues a stand-alone financial report or is included in the report of a PERS or another entity, and, if so, how to obtain the report.

b. Funding policy.
   1) Authority under which the obligations of the plan members, employer(s), and other contributing entities (for example, state contributions to local government plans) to contribute to the plan are established or may be amended.
   2) Required contribution rate(s) of plan members. The required contribution rate(s) could be expressed as a rate (amount) per member or as a percentage of covered payroll.
   3) Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll, and, if applicable, legal or contractual maximum contribution rates. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined (for example, by statute or by contract) or that the plan is financed on a pay-as-you-go basis. ***If the plan is a cost-sharing plan, disclose the required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, and how the required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the plan is financed on a pay-as-you-go basis.***

Issue 4-6: Required Supplementary Information

GASB 68 requires two additional RSI schedules to be included in the financial statements. They are the Schedule of Proportionate Share of the Net Pension Liability (as of the measurement date of the net pension liability) and the Schedule of Contributions (as of the employer fiscal year end). Both schedules are required to present 10 years of information.

<u>RECOMMENDATION 4-6</u>

Schedule of Proportionate Share of the Net Pension Liability

The components of this schedule are defined by GASB 68 paragraph 81.a, included below. The only number not provided by ORS for this schedule is **Covered-employee payroll**. Make sure the payroll number is for MPSERS fiscal year of 10/1-9/30. Note GASB 82 changes the definition of covered employee payroll from gross payroll to reportable compensation (that is the compensation used to determine the contributions). This standard is effective for the June 30, 2017 financial statements with earlier application encouraged.

Schedule of Contributions

The components of this schedule are defined by GASB 68 paragraph 81.b, included below. The two numbers not provided by ORS for this schedule is **statutorily required contributions** and **Covered-employee payroll**. See State Aid - Section 147 above for information on statutorily required contributions. Make sure these amounts are for the school's fiscal year of 7/1-6/30. See comment above regarding covered payroll.

If the school is current in their payments to MPSERS the Contributions in relation to the statutorily required contributions will be the same as the statutorily required contribution. The Contributions in relation to the statutorily required contributions also include current payables, not just cash payments made.

TIP: The RSI schedules eventually will show 10 years with the pre-2015 years showing no information or they may start with the 2015 year and add an additional year each year until 10 years of data are reached. With either method make sure to explain why 10 years of data is not present.

TIP: Do not forget to include the required notes to the RSI schedules. See GASB 68 paragraph 82, included below.

Required supplementary information—all cost-sharing employers

81. The required supplementary information identified in subparagraphs (a) and (b), as applicable, should be presented separately for each cost-sharing pension plan through which pensions are provided. The information indicated in subparagraph (a) should be determined as of the measurement date of the collective net pension liability. The information in subparagraph (b) should be determined as of the employer's most recent fiscal year-end.

- a. A 10-year schedule presenting the following for each year:
  - 1) If the employer does not have a special funding situation:
    - a) The employer's proportion (percentage) of the collective net pension liability
    - b) The employer's proportionate share (amount) of the collective net pension liability
    - c) The employer's covered-employee payroll
    - d) The employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
    - e) The pension plan's fiduciary net position as a percentage of the total pension liability.
- b. If the contribution requirements of the employer are statutorily or contractually established, a 10-year schedule presenting the following for each year:
  - 1) The statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.
  - 2) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
  - 3) The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
  - 4) The employer's covered-employee payroll.
  - 5) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the employer's covered-employee payroll.

Notes to required schedules

82. Information about factors that significantly affect trends in the amounts reported in the schedules required by paragraph 81 (for example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions) should be presented as notes to the schedules. (The amounts presented for prior years should not be restated for the effects of changes—for example, changes of benefit terms or changes of assumptions—that occurred subsequent to the measurement date of that information.)

Chapter Five Information Resource for Disclosure Completion

In 2012 the Governmental Accounting Standards Board (GASB) published Statement No. 68, which changes the way public pension plans, like the Michigan Public School Employees Retirement System (MPSERS), discloses its pension information. GASB 68 also requires that individual districts provide certain disclosures within their financial statements that provide specific data relating to the district's pension plan. Any reporting unit that was required to report to ORS during the measurement period (October 1, 2013 – September 30, 2014) is also required to comply with GASB 68 in its annual financial statements beginning with the fiscal year ending June 30, 2015.

The Michigan Department of Technology, Management and Budget, through the Office of Retirement Services Public School Reporting Unit website has established a Governmental Accounting Standards Board (GASB) Statement No. 68 resource page that contains much of the information needed by districts to assist with completion of their GASB 68 required disclosures. It is expected ORS will update the web page annually.

The information is broken down into the following linked sections:

ORS Plan to Assist Reporting Units

Overview of ORS's plan to assist reporting units in meeting GASB 68 requirements. **Updated: 06/25/2015**

Data Tables

GASB-required pension data by reporting unit. Used in financial statements and to complete templates found in Notes and Required Supplemental Information.

Notes to Financial Statements

Sample language and guidance regarding the Notes to Financial statements that GASB requires to be disclosed in employers' financial statements.

Required Supplemental Information

Sample language, schedule templates and guidance regarding the Required Supplemental Information (RSI) that GASB requires to be disclosed in employers' financial statements.

Frequently Asked Questions and Glossary

Answers to questions ORS anticipates as a result of GASB 68, with a glossary of key terms. **Updated: 09/29/2015**

Auditor General Updates

Updates released by date from the Office of the Auditor General **Updated: 10/15/2015**

Detailed Guidance

PowerPoint presentation with detailed guidance for implementing GASB 68 data.

Additional sensitive data will be provided to your reporting unit via the Data Exchange Gateway (DEG). ORS will notify reporting units via email when this data is available.

Additional Linked Resources:

- GASB IMPLEMENTATION TOOLKIT FOR GOVERNMENTS - NO. 68
- AICPA - GASB Pensions: Issues and Resources
- Communicating GASB 68 to Your Board and Community - Maner Costerisan
- GASB 67 & 68 -Basic Training - Plante Moran
- GASB 67 & 68 - Advanced Training - Plante Moran
- GASB 68 for Schools - Yeo & Yeo

GLOSSARY

1. Statutorily Required Contribution: Contributions that a reporting unit actually made to MPSERS

2. 147c - Section 147c of the State School Aid Act refers to an appropriation for the state school aid fund for payments to districts and intermediate districts that are participating entities of the Michigan public school employees' retirement system (MPSERS). Payments made under this section shall be equal to the difference between the unfunded actuarial accrued liability contribution rate as calculated pursuant to section 41 of the public school employees' retirement act as calculated without taking into account the maximum employer rate of 20.96% included in section 41 of the act. The amount allocated to each participating entity under this section shall be based on each participating entity's proportion of the total covered payroll for the immediately preceding fiscal year for the same type of participating entities. A participating entity that receives funds under this section shall use the funds solely for the purpose of retirement contributions in an amount equal to the amount allocated to the retirement system in a form, manner and time frame determined by the retirement system.

3. Net Pension Liability: The net pension liability is the liability of employers (reporting units) to plan members for benefits provided through a defined benefit pension plan. The net pension liability equals the total pension liability minus the market value of assets

4. Reporting Unit: Reporting units, often referred to as the employers, are Michigan local school districts, intermediate school districts, public school academies, tax-supported community colleges, seven of Michigan's major universities, and district libraries

5. OPEB: All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits. Currently GASB 68 does not require reporting on OPEB, although it is expected that reporting on OPEB will be added to GASB's requirements in the next few years. Note that much of what reporting units report to ORS is a combination of pension and OPEB. For this reason, some GASB-related figures (based solely on pension) will not match a reporting unit's figures (based on both pension and OPEB).

6. Measurement Date: Fiscal year end for MPSERS (the "plan") and is different from the FYE for school districts. MPSERS fiscal year ends on September 30. Reporting unit must provide all information for the period subsequent to the measurement date.

7. Cost Sharing Multiple Employer Plan: A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan. MPSERS is a cost-sharing multiple-employer pension plan.

8. Proportionate Share: Percentage of total pension contributions required from all reporting units in the plan. Proportionate share is based on the reporting unit's historical pension contributions to the system. Each reporting unit's proportional share percent and its proportionate share of the net pension liability will be provided by ORS each year. This is based on MPSERS plan fiscal year (Oct. 1-Sept. 30)

9. Census Data: Plan members' demographic data.

10. Covered Employee Payroll: Total payroll, not pensionable payroll. Total payroll = gross wages, including bonuses, stipends, or other nonreportable compensation. The payroll of covered employees, defined as gross earnings, not reportable compensation. For the purposes of GASB 68 a "covered employee" means an employee for whom the employer is required to make contributions to cover the unfunded accrued actuarial liability (UAAL), including some retirees who return to work.

    Reporting units do not report covered-employee payroll information to ORS. Each reporting unit will need to determine this amount themselves, for use in their note disclosures and in both Required Supplemental Information schedules. **Note:** the covered-employee payroll must be determined for two different time periods: the pension plan's fiscal year (October 1, 2013 - September 30, 2014) and the reporting unit's fiscal year (July 1, 2014 - June 30, 2015).

11. Deferred Inflow/Outflow: The deferred inflows and outflows of pension resources are amounts used under GASB 68 in developing the annual pension expense. Deferred inflows and outflows arise with differences between expected and actual experiences; changes of assumptions; and differences between projected and actual returns on investments. The portion of these amounts not included in pension expense should be included in the deferred inflows and outflows of resources to be recognized in future years (See Note 5).

12. Actuarial Assumptions: These assumptions are estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and compensation increases. Actuarial assumptions are generally based on past experience, often modified for projected changes in conditions.

13. Actuarial Valuation Report: The actuarial valuation report determines, as of the actuarial valuation date, the service cost, total pension liability, and related actuarial present value of projected benefit payments for pensions.

14. Actuarial Valuation Date: The date as of which an actuarial valuation is performed

15. Total Pension Expense: The total pension expense is the sum of the following pension expense items that are recognized from the beginning to the end of the MPSERS fiscal year (September 30). Some of the items will be additive and some will be subtractive, depending on each fiscal year.

    - Total service cost (employer and employee)
    - Interest on total pension liability
    - Current-period benefit changes to plan
    - Employee (or member) (service cost) contributions
    - Projected earnings on plan investments
    - Administrative expense
    - Other changes in plan fiduciary net position
    - Recognition of beginning deferred outflows (inflows) due to liabilities
    - Recognition of beginning deferred outflows (inflows) due to assets