



## Award of Distinction for Excellent Financial Reporting Recipients for FY 2013

- Atlanta Independent School District
- City of Bremen Board of Education
- City of Chickamauga Board of Education
- City of Gainesville Board of Education
- Columbia County Board of Education
- Coweta County Board of Education
- Dawson County Board of Education
- Decatur County Board of Education
- Early County Board of Education
- Evans County Board of Education
- Hall County Board of Education
- Houston County Board of Education
- Lee County Board of Education
- Lincoln County Board of Education
- Marion County Board of Education
- McIntosh County Board of Education
- Mitchell County Board of Education
- Paulding County Board of Education
- Taylor County Board of Education
- Telfair County Board of Education
- Thomas County Board of Education
- Towns County Board of Education
- Washington County Board of Education
- Webster County Board of Education
- Worth County Board of Education


 Department of Audits & Accounts  
 Education Audit Division

## Fiscal Year 2014

### Award of Distinction for Excellent Financial Reporting

The Best Practice Criteria has been established to recognize better practices for financial reporting and controls. This Award of Distinction encourages Colleges, Universities and Local Boards of Educations to go beyond the minimum requirements of generally accepted accounting principles and recognize individual organizations that are successful in achieving that goal.


 Department of Audits & Accounts  
 Education Audit Division

## DOAA Award of Distinction for Excellent Financial Reporting

### Criteria:

#### Timeliness

##### *Financial Statements*

Financial Statements including MD&A, note disclosures, required supplementary information and supplementary schedules and all key supporting evidence were submitted to the Audit Supervisor by November 17.

##### *Compliance with Transparency in Government Act*

Accurate information submitted by the following established deadlines: Salary and Travel Information: August 15; Audit History Files: October 1; SPLOST Schedule : December 15, Immigration Reform Act: December 31

#### **Quality of Financial Statements, Note Disclosures, Required Supplementary Information and Supplementary Information**

First set of financial statements, MD&A, notes, required supplementary information and supplementary information provided for audit required only minimal adjustments during the audit.

## DOAA Award of Distinction for Excellent Financial Reporting

### Criteria:

#### **Quality of Audit Documentation**

Full supporting documentation to substantiate financial statements provided in a timely manner. Evidence easy to locate and use for audit.

#### **Resolution of Accounting Standards/Presentation Issues**

Management resolved all accounting standards and presentation issues in a timely manner.

#### **Key Staff**

Key staff readily available and cooperative during the audit and did not contribute to any delays in finalizing the audit.

#### **Number and Significance of Deficiencies Identified**

No significant deficiencies or material weaknesses noted during the audit. No more than 3 to 5 control deficiencies reported within the management letter

#### **Clear Audit Opinion**

Unmodified Opinion



## Uniform Grant Guidance

Eight different OMB guidance streamlined into one.  
Eliminating overlapping duplicative and conflicting guidance.

- A-21
- A-50
- A-87
- A-89
- A-102
- A-110
- A-122
- A-133

Title 2 of CFR, Subtitle A, Chapter II, Part 200  
UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES,  
AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS  
"SUPER CIRCULAR"

## Uniform Grant Guidance

- Intended Outcomes
  - Stronger Oversight
  - Improved Business Processes
  - Well Trained Workforce
  - Targets Risk and Minimize Burden

## Effective Dates section 200.110

- All awards or funding increments made on or after **December 26, 2014** must adhere to the Uniform Guidance.
- Audit requirements are effective for fiscal years beginning on or after **December 26, 2014**.

## Title 2 of CFR, Subtitle A, Chapter II, Part 200

- **Subpart A** - contains acronyms and definitions used throughout the Guidance.
- **Subpart B** - general provisions including the purpose of the Guidance, its applicability, and effective date.
- **Subpart C** - administrative requirements directed primarily at federal agencies including pre-award activities and requirements for the contents of federal awards.
- **Subpart D** - procurement, internal control, and subrecipient monitoring.
- **Subpart E** - Cost Principles previously found in Circulars A-21, A-87, and A-122
- **Subpart F** – Audit Requirements
- **Appendices I through XI** – cost principles, data collection form, compliance supplement

## What you need to know – Subpart D

- **Internal Controls** *section 200.303*
  - Non-Federal entities must establish and maintain effective internal control over the Federal awards.
  - *Source documents for Best Practices*
    - *Standards for Internal Control In the Federal Government (Green Book) – Recently updated, September 2014*
    - *Committee on Sponsoring Organizations (COSO)*  
*On December 15, 2014 the COSO 1992 framework will be superseded by the COSO 2013 framework.*
    - *Appendix XI to Part 200—Compliance Supplement*  
*Will consider both Green Book and COSO in the 2015 update*

## What you need to know – Subpart D

- **Internal Controls** *section 200.303*
  - *Entities and their Auditors need to determine the most appropriate and cost effective internal control framework to provide reasonable assurance for compliance with Federal program requirements.*

## What you need to know – Subpart D

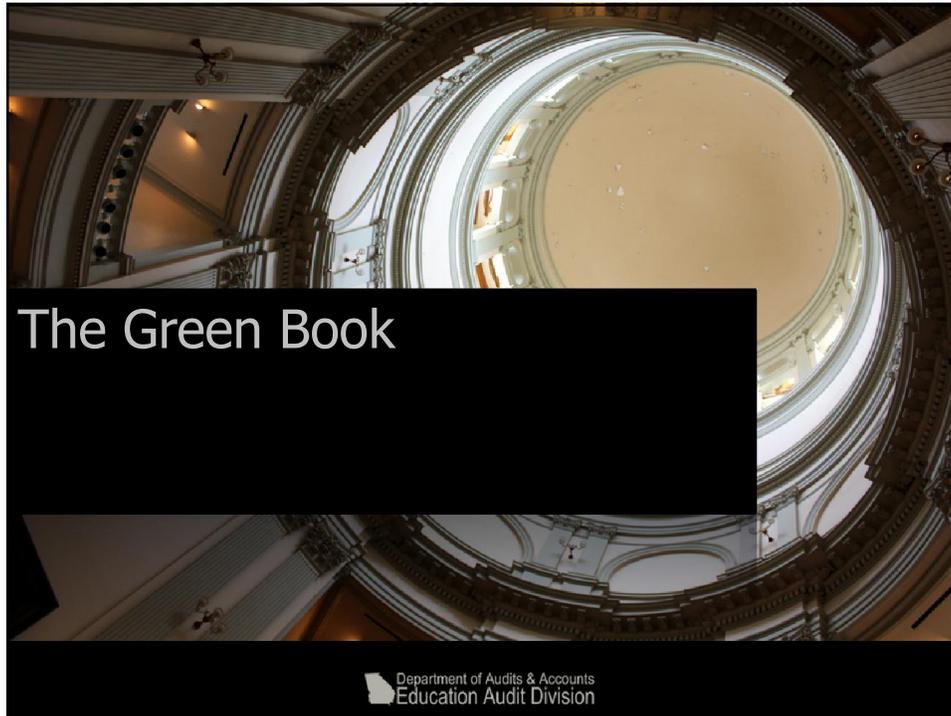
- **Procurement** *sections 200.317 through 200.326*
  - **Procurement standards are modeled after A-102**
    - States will follow the same policies and procedures they use for procurements from non-federal funds
    - New for Universities and Non-Profits
  - **Five procurement methods**
    - Micro-purchases (< \$3,000)
    - Small purchases (> \$3,000 and < \$150,000)
    - Sealed bids (> \$150,000)
    - Competitive proposals (> \$150,000)
    - Noncompetitive purchases: special circumstances applicable to all purchase levels.

## What you need to know – Subpart D

- **Procurement** *section 200.318*
  - All procurement methods must comply with the following standards:
    - ✓ Documented policies and procedures
    - ✓ Purchases are necessary
    - ✓ Full and open competition
    - ✓ Conflict of Interest policy
    - ✓ Proper documentation

## What you need to do now -

- Obtain an Understanding of the New Requirements – 2CFR 200
- Set Tone at the Top
- Available Resources – Council on Financial Assistance Reform (COFAR)  
<https://cfo.gov/cofar/>



## The Green Book

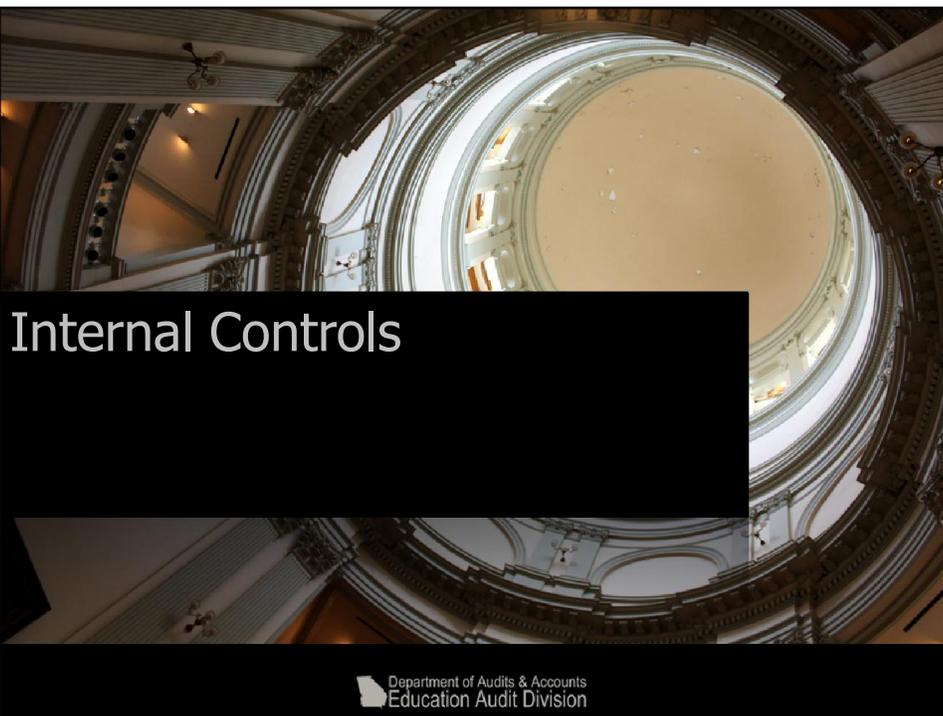
Internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. Standards for Internal Control in the Federal Government, known as the “Green Book,” sets the standards for an effective internal control system for federal agencies.

## The Green Book

The new edition of the Green Book has retained the five components of internal control

- Control Environment
- Risk Assessment
- Control Activities;
- Information and Communication
- Monitoring

The new edition presents 17 new principles that enumerate managements responsibilities in implementing and overseeing an effective internal control system.



## Internal Controls



### Why Do We Need Strong Internal Controls?

To protect yourself & your employees

### Ultimate Goal

Protect your Assets

- From the time assets are received to the time they are booked
- To the point in which assets are removed from your system / books

## Internal Controls



### What Do I Need to Do?

- Assess the Level of Risk
  - Qualitative / Quantitative
  - Political Risk
  - Local Newspapers
- Identify Reasonable Controls
- Determine Benefits of Controls
- Implement Controls
- Document the Controls and the Performance of the Controls
- Monitor the Controls

## Internal Controls

### Tips

- There are no Absolutes
- Keys to Good Systems of Control
  - Strong Documented Policies
    - Many entities have controls in place but they have not formalized or documented in policies or as procedures.
  - Monitoring / Enforcement of Policies Must be Documented
    - Ex. Checklist for Review
- Documentation of any Deviations from Standard Practice / Policy

## Separation of Duties

An employee should not **perform functions** which would allow the employee **to perpetrate** and **to conceal errors or fraudulent activity.**



## Risky Account Balances?

Assuming there are good internal controls in place. What is the likelihood that the following account balances could be materially incorrect?

- Payroll expense
- Cash
- Accounts Payable
- Salaries Payable
- Construction expenditures

## Risky Account Balances?

Assuming there are good, properly functioning internal controls in place. How risky are the following account balances to being materially incorrect?

- Capital Asset impairments
- Unrecorded Liabilities
- Revenue recognition
- New Accounting Pronouncements

## Opinion Units

Different opinion units have different materiality levels

- District-wide financial statements
- General Fund
- Capital Projects Fund
- Debt Service Fund

## Capital Assets - Impairments

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* - an **unexpected** and **significant** decline in the **service utility** of a capital asset .

## Capital Assets - Impairments

Three terms are used to define impairment in GASBS No. 42 — significant, service utility, unexpected.

- **Unexpected** - the event or circumstance was not expected to occur during the life of the asset.
- **Significant** - will require judgment, GASB does not define the term
- **Service utility** - the usable capacity that an asset was expected to provide at its acquisition, as opposed to the capacity currently being used.

## Capital Assets - Impairments

Examples of common indicators that an asset may have been impaired:

- Evidence of physical damage, for example by fire or flood.
- A change in legal requirements or environmental factors that govern the asset's use, for example, enactment of new water quality standards that cannot be met by an existing water treatment plant.
- Technological changes or evidence of obsolescence, for example, an asset that is no longer used because a newer model is more efficient.

## Capital Assets - Impairments

Examples of common indicators that an asset may have been impaired:

- A change in the way an asset is used or in the length of time it was expected to be used, for example, a piece of equipment used in a utility plant that is being closed before the end of its useful life.
- Construction stoppage, for example, when construction is halted due to lack of funds.
- Development stoppage, for example when a government stops developing internally generated software due to a change in management priorities.

## Capital Assets

### Impairment Tests:

- **Magnitude** - Would the expenses associated with continuing to operate and maintain the asset (other than depreciation) or with restoring the asset be significant in relation to the *current service utility* of the asset?
- **Unexpected Nature** - Is the restoration cost or other impairment circumstance a part of the normal life cycle of the asset ?

## Capital Assets - Impairments

### *Not a fishing expedition.....*

GASBS No. 42, paragraph 6 –“The events and changes in circumstances affecting a capital asset that may indicate impairment are prominent – that is conspicuous or known to the government.”

These events or changes in circumstances “are expected to have prompted discussion by the governing board, management, or the media.”

## Capital Assets - Impairments

### Temporary Impairment

Example: A school building that is closed temporarily due to a drop in enrollment that is expected to reverse itself in the next few years.

- When an impairment is shown to be temporary, the capital asset should not be written down (no loss should be reported).
- Impairment should always be considered permanent when it is indicated by physical damage

## Capital Assets - Impairments

### Reporting Impairment Losses:

**Fund Level Statements** – Not reported because governmental funds measure only the flow of current financial resources.

**District-wide Statements** – Reported loss as program expense, extraordinary, or special item.

## Capital Assets - Impairments

### Insurance Recoveries

- **Fund Level Statements** - report as an “other financing source” or as an extraordinary or special item. Restoration or other costs related to the impairment of a capital asset should be reported as separate transactions – not netted with insurance recovery. Recoveries should only be recognized when realized or realizable.
- **District-wide Statements** - Insurance recoveries should be netted against the impairment loss if both occur in the same fiscal year. Recoveries that occur after the year the asset is written report the same way as the write-off (as a program revenue, special item, or extraordinary gain).

## Capital Assets - Impairments

### Material misstatement? – Possibly....

- Identifying impairments in year of occurrence is important
- If unidentified, in future periods when the asset is eventually written down or off:
  - Restatement of Beginning Net Position
  - Financial Reporting deficiency depending on magnitude

## Capital Assets – Other Items

- **Contracts/Retainage Payable** - Be sure to include in Construction in Progress or Building/Improvement Additions
- **E-rate** – in many instances the cost to you is only 10% of the value of the assets. Be sure to capitalize the entire asset value, not just the amounts that you have paid.

## Unrecorded Liabilities - IBNR

### IBNR – “Incurred but Not Reported” Claims

- Events that have occurred as of the balance sheet date for which a claim has not yet been reported or asserted.
- IBNR liability is “an estimate of loss associated with future likely activity on incurred claims based on historical actual results that establish a reliable pattern.”
- Common types of IBNR losses are workers’ compensation and medical claims. IBNR is related to an event that could lead to the occurrence of a loss before the date of the financial statements, but no claim has been asserted at the date of the financial statements.

## Unrecorded Liabilities - IBNR

### Most likely liabilities are in self-insurance programs:

- Medical Costs;
- Dental Costs;
- General Liability;
- Workmen's Compensation;
- Unemployment Compensation;
- Drug Prescription Plans; and
- Vision Care

## Unrecorded Liabilities - IBNR

### Factors to be used in measuring an IBNR liability:

- Estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors.
- Past experience with similar claims.
- Current facts, circumstances, and trends that affect past experience.

This accrual can be based on a case-by-case review or on overall historical experience. In some instances, if the computation is complicated, an actuary may be needed to determine the calculation.

## Unrecorded Claims & Judgments

Recognition of a loss liability required if *both* of these conditions exist prior to issuance of the financial statements:

1. It is **probable** that an asset has been impaired or a liability has been incurred at the balance sheet date.
2. The amount of loss can be **reasonably estimated**.

## Unrecorded Claims & Judgments

Note disclosure - a contingent liability must be disclosed (but not recognized) if:

1. A loss is **probable**, but not estimable, based on information that exists prior to issuing the financial statements, or
2. A loss is **reasonably possible**.

## Unrecorded Claims & Judgments

GASBS No. 10 and GASBS No. 62 define:

**Probable** – the future event or events are likely to occur.

**Reasonably possible** – the chance of occurrence is more than remote but less than likely.

**Remote** – the chance of occurrence is slight.



## Unrecorded Claims & Judgments

The types of potential claims, judgments, and business risks within the scope of GASBS No. 10 include:

- Torts—a wrongful act, injury, or damage for which a civil action (lawsuit or claim) can be brought.
- Theft of, damage to, or destruction of assets.
- Business interruption.
- Errors or omissions.
- Job-related illnesses or injuries to employees.
- Acts of God, such as floods, hurricanes, or earthquakes.



## Unrecorded Claims & Judgments

### Recording Contingent Liabilities

#### Fund Level Statements:

- Claims, liabilities, and expenditures should be reported when due and payable.
- May use any method to allocate claims and judgment expenditures among funds in the fund financial statements.

## Unrecorded Claims & Judgments

### Recording Contingent Liabilities

#### District-wide Statements:

- Claims, judgments, and recognized loss contingencies should be reported as liabilities when the loss is probable and reasonably estimable.
- Expenses that can be specifically identified with a function or identifiable activity should be included in the direct expenses of that function/activity in the government-wide statement of activities.
- Claims and judgments that are special or extraordinary items, should not be reported as direct expenses but should be reported at the bottom of the statement of activities after general revenues and before transfers.

## Unrecorded Claims & Judgments

### Recording Contingent Liabilities

#### District-wide Statements:

- NOTE: If the estimate of the loss in item is a range, the best estimate of the amount within the range should be accrued. If no amount within the range is any better estimate than the other amounts, the minimum amount in the range should be accrued.

## Unrecorded Payables

Other potential unrecorded liabilities to be aware of:

- Contracts Payable
- Retainage Payable
- Compensated Absences

## Revenue Recognition - GSFIC

### GSFIC Funds

Two criteria for expenditure-driven grants

- “...revenues should be recognized when the expenditure is made.”
- “in the period when all applicable eligibility requirements have been met *and* the resources are available.”

## Revenue Recognition - GSFIC

### What does “resources are available” mean?

Funds have been appropriated by the State -

“a government does not have a liability to transmit resources under a particular program, and a recipient does not have a receivable, unless an appropriation for that program exists and the period to which the appropriation applies has begun.”

For GSFIC, this is typically when the bonds have been sold. Not worried about specific bonds for individual projects.

## Revenue Recognition - GSFIC

What does “resources are available” mean?

Fund level statements (modified accrual) – Funds received within the following period as provided in Board policy as “available” for modified accrual accounting.

## Revenue Recognition – Property Taxes

### General Tips:

- Accounts Receivable is equal to the Delinquent Taxes at June 30th
- Accounts Receivable is the same amount on the Fund and District Wide Statements.
- Only July receipts are recorded as Accounts Receivable for the Title Ad Valorem Taxes.
- Deferred Inflow of Resources – is reported for funds received before the levy date.

## Revenue Recognition – Property Taxes

### General Tips:

- If delinquent taxes are greater than the July/August receipts, the difference between the receipts and delinquents is recorded as Deferred Inflows.
- If delinquent taxes are less than the July/August receipts, then check the levy and due dates for future levies. A portion of the July/August receipts may not be related to the current calendar tax year and should be reported as Deferred Inflows.
- Determine the categories of the delinquent taxes reported on the confirmation at June 30th. Some tax categories may have July/August receipts that are not part of the delinquent balance and therefore should not be netted.

## Revenue Recognition – Property Taxes

### General Tips:

- The most common misstatements due to error are related to recording the accruals and/or delinquent taxes incorrectly.
- This can occur due to transposition error, mathematical error, incorrect amount reported on the confirmation from tax commissioner, etc.
- With this type of error, the revenue transaction class and the receivable account balance is most likely partially misstated instead of entirely misstated. A material misstatement can occur.

## Revenue Recognition – Property Taxes

### Levy Date

Recognize revenues from property taxes in the period **for which the taxes are levied**, even if the enforceable legal claim arises or the due date for payment occurs in a different period.

## Revenue Recognition – Property Taxes

### Levy Date

Example – Levy date for Calendar Year 2015 will be set sometime in 2014

If the levy date is in May, June, July or August, then the amount of receipts and accruals. The receipts through July and August will need to be reviewed to determine what tax year those receipts apply. For example, the calendar year 2015 taxes are levied in June 2014. Even if the due date is not until October, some taxes are paid early.

## Revenue Recognition – Property Taxes

### Recommendations :

- Develop and maintain a spreadsheet to keep track of the taxes due to be collected by the School District.
- Contact the tax commissioner to determine the levy date, due date, and taxes due.
- As taxes are collected, log that amount in the spreadsheet to determine amount due but not collected. This will determine the amount of delinquent taxes by calendar year roll that are due to the School District and should be accrued at June 30th.

## Revenue Recognition – Property Taxes

### Recommendations :

- Determine what taxes the Commissioner's office is keeping up with as delinquent. If some tax categories are not included, then an adjustment is necessary for the amount of taxes received in July and August of the subsequent period. For example, if motor vehicle taxes are not included in the delinquent amounts, then the total receivable at June 30th is the delinquent taxes at June 30th plus the motor vehicle taxes received in July and August of the subsequent period.
- Pay attention to the levy dates.

## New GASB Pronouncements

Effective FY14

GASB 65 – *Items Previously Reported as Assets and Liabilities*

Effective FY15

GASB 68 – *Accounting and Reporting for Pensions – an amendment of GASB Statement No. 27*



### **GASB 65 – Note Disclosure for Restatement of Beginning Net Position.**

#### **Restatements to Beginning Net Position required:**

Bond Issuance Costs were deferred and amortized over the life of the loan in the prior year.

Debit - Beginning Net Position

Credit - Deferred Charges for balance of Deferred Charge at July 1, 2013.



## GASB 65

### Restatement necessary based on Paragraph 34 of GASB 65:

“The cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position or fund balance, as appropriate, for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.”

## GASB 65

### Other Changes that will not result in a restatement:

#### District Wide Statements:

- Reclassification of Deferred Gain or Loss on Debt Refunding
  - Debit/Credit Deferred Outflows/Inflows of Resources instead of Long Term Liabilities
- Prepayment of future property tax levy:
  - Credit Deferred Inflow of Resources instead of Deferred Revenue

## **GASB 65**



### Governmental Funds:

- Property Taxes Not Received within 60 days
  - Imposed Non-Exchange Transaction
  - Credit Deferred Inflows instead of Deferred Revenue
- GSFIC Revenue not received within period determined by LEA
  - Voluntary Non-exchange transaction
  - Credit Unavailable Revenue instead of Deferred Revenue

## **GASB 65**



### Terminology Change:

- Deferred Revenue is now Unavailable (or Unearned) Revenue
- Also have seen term “Advances”

## **GASB 65**

### Note:

Some financial accounting systems may not yet be updated for the changes. Because of this, financial Statement journal entries outside the system to reclassify activity to Deferred Inflows/Outflows will be acceptable by our office.

## **GASB 68 IMPLEMENTATION**

## Headlines

- GASB 68 is here
- Smaller proportionate share than previous estimate (TRS)
- TRS to provide all required information
  - One exception

## Agenda

- Summary of Employer Provisions
- Effective Date
  - Recording opening balances at implementation
- Measurement Date
- Deferred Inflows And Outflows Of Resources
- Note Disclosures and RSI
- Special Funding Situations
- Census Data Testing



## Summary of Employer Requirements

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

## Summary of Employer Requirements (continued)

- Net pension liability equals the total pension liability less the fiduciary net position of the pension plan ( $NPL = TPL - FNP$ )
- Changes in the net pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the change
- Significant changes to methods and assumptions used to determine actuarial information for GAAP reporting
- No significant changes to accounting for pensions in governmental funds
- Expanded note disclosures and RSI

**EFFECTIVE DATE**

## Effective Date of GASB 68

- GASB 68 (Employer Accounting and Reporting)
  - Effective for periods beginning after June 15, 2014
  - GASB 71 issued June 2013, amending transition guidance
  - Implementation guide issued January 2014

## Effective Date of GASB 68

- Changes made to comply with the standard should be treated as an adjustment of prior periods, if practical, resulting in restatement of those periods
  - If not practical to determine amounts of *all* applicable deferred inflows and outflows of resources related to pensions, beginning balances of deferred inflows and outflows of resources are not required to be restated, except for deferred outflows related to contributions made after the measurement date
- Single-employer and cost-sharing employers - 10 years for RSI
- RSI schedules are prospective, if information not initially available
  - If a full schedule is not presented, present information for as many years as available until 10 years of information is accumulated
  - Exception – contribution schedule should be presented in full upon implementation, if applicable

## Adjustment to Beginning Balances

	Beginning of Period	Amount (\$)
Debit	Beginning net position	44,800
Debit	Deferred outflows of resources	0
Debit	Net pension obligation – per GASB 27	4,000
Debit	Deferred outflows of resources – ER contributions made after the prior measurement date	1,200
Credit	Deferred inflows of resources	0
Credit	Net pension liability	50,000

Determine amounts of all deferred inflows/outflows of resources, if practical. If not practical, employers are expected to report a beginning amount of deferred outflows of resources for contributions made in the prior period after the prior year's measurement date, if applicable.

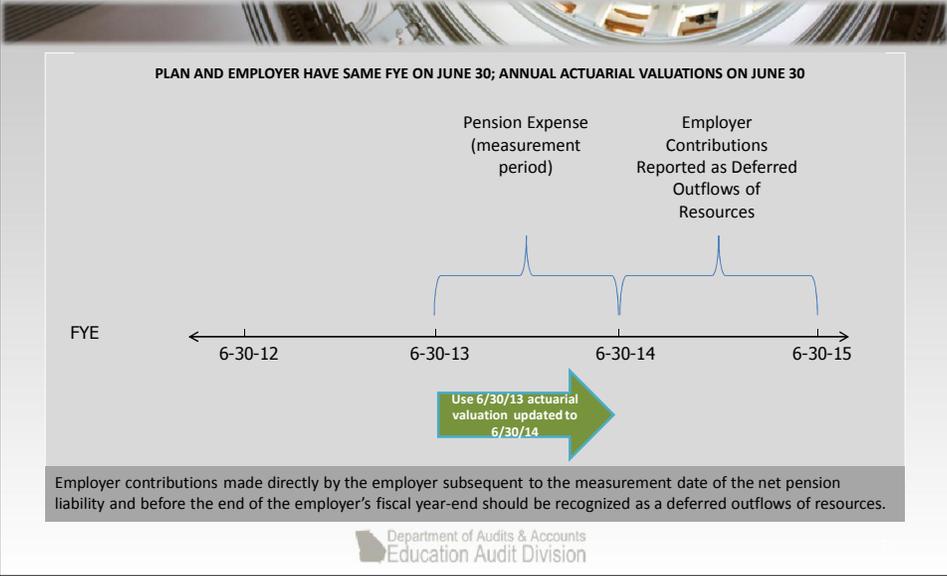
Department of Audits & Accounts  
Education Audit Division

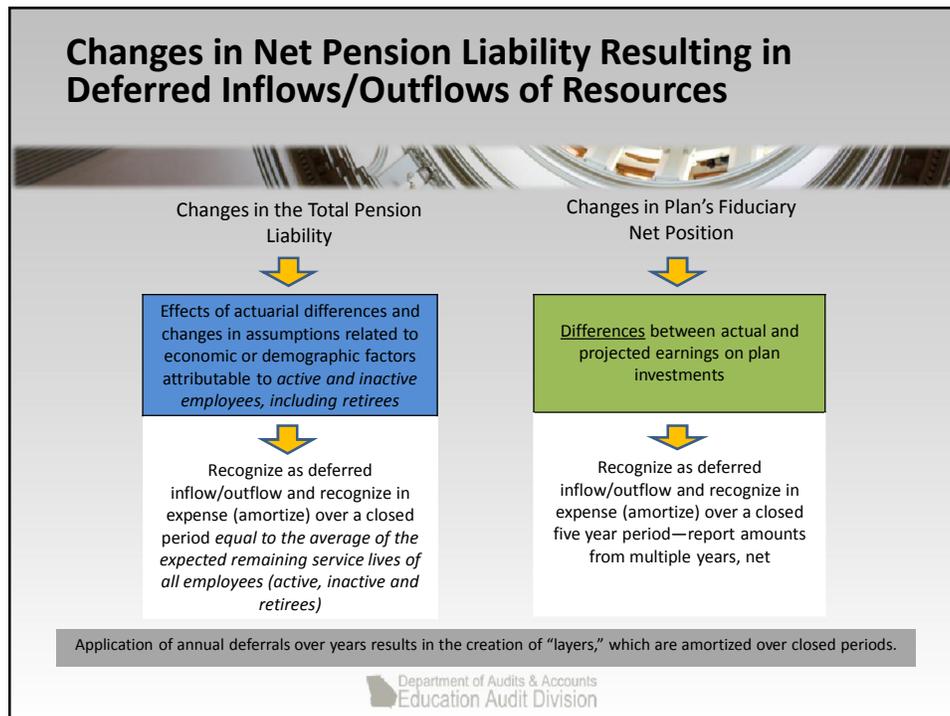
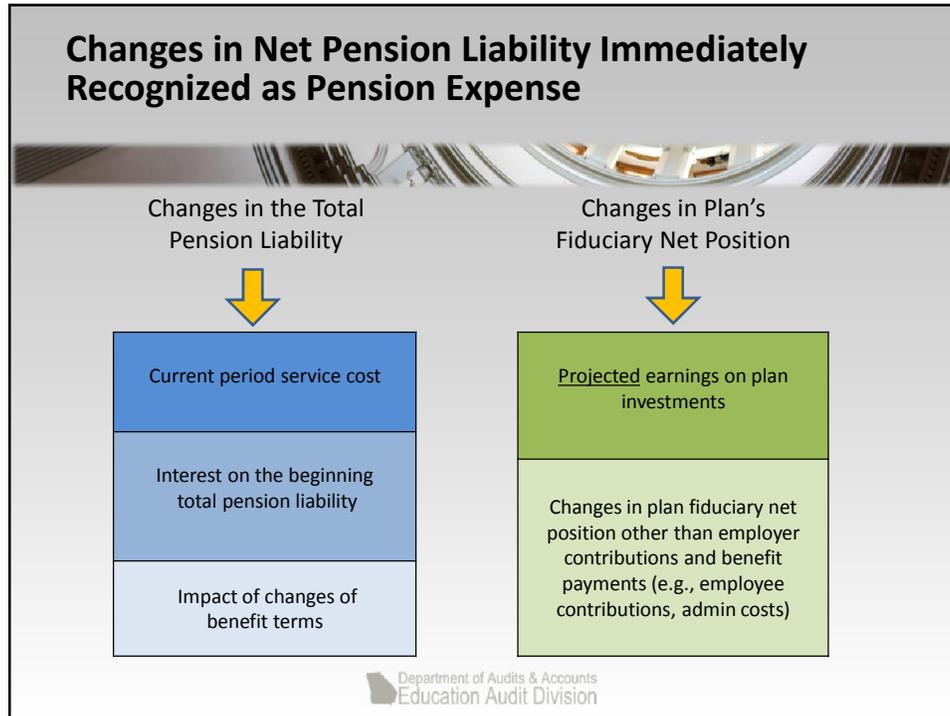


**MEASUREMENT DATE**

Department of Audits & Accounts  
Education Audit Division

## TRS/Employer Measurement Date – 6/30/14





## Deferred Inflows and Outflows

- Potentially three additional items
  1. Net effect of change in proportion
  2. Difference between:
    - Employer's proportionate share of all employer contributions included in collective plan net position
    - Contributions recognized by the employer in the measurement period
  3. Employer's contributions subsequent to measurement date

## Deferred Inflows and Outflows (continued)

- Expense impact of changes in proportion and contribution-related differences
  - Recognize in current and future periods
  - Systematic/rational method
  - Closed period over the average of expected remaining service lives of all employees
- Employer contributions subsequent to measurement date
  - Deferred outflow of resources in current period
  - Reduction of collective NPL in next period (part of comparison of actual contributions to share of collective contributions)

## Deferred Inflows and Outflows (continued)

- Calculation of the change in proportion

	NPL	Deferred Outflows of Resources	Deferred Inflows of Resources
Beginning balance collective measure	<u>\$7,455,024</u>	<u>\$2,185,968</u>	<u>\$1,229,826</u>
Employer's proportionate share (current year) @ 2.5%	\$186,376	\$54,649	\$30,746
Employer's proportionate share (prior year) @ 2%	<u>\$149,100</u>	<u>\$43,719</u>	<u>\$24,597</u>
Increase in beginning balance	<u>\$37,276</u>	<u>\$10,930</u>	<u>\$6,149</u>
Net effect (increase in deferred outflows of resources)		<u>\$32,495</u>	

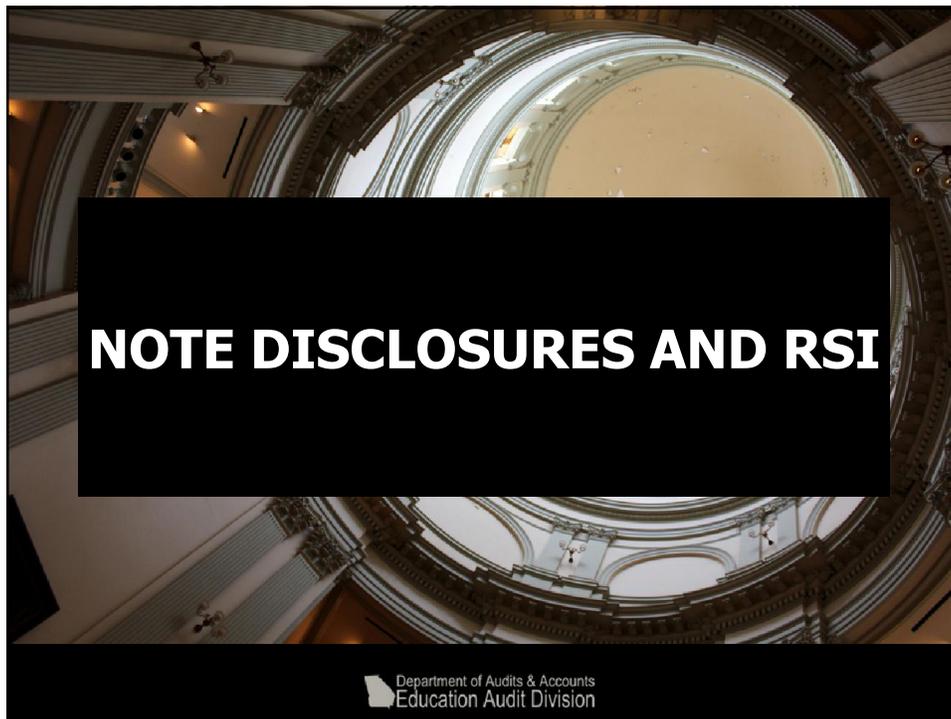
Department of Audits & Accounts  
Education Audit Division

## Deferred Inflows and Outflows (continued)

- Difference between proportionate share of collective contributions and employer's actual contributions

Total employer contributions (as recognized by plan)	<u>\$1,004,730</u>
Employer's proportionate share of total employer contributions (@ 2.5%)	\$25,118
Employer's actual contributions	<u>22,018</u>
Difference (increase in deferred inflows of resources)	<u>\$ 3,100</u>

Department of Audits & Accounts  
Education Audit Division



## Note Disclosures and RSI

### SINGLE EMPLOYER PENSION PLANS

### AGENT PENSION PLANS

### COST-SHARING PENSION PLANS

- Description of the pension benefits
- Significant assumptions used to measure total pension liability
- Disclosures for the discount rate
- Measures of employer's net pension liability calculated using discount rates that are one percentage point higher and lower than current-period net pension liability
- Measurement date of the net pension liability; date of the actuarial valuation
- Brief description of changes in benefit terms and assumptions
- A description of the nature of any changes between the measurement date and the employer's reporting date that are expected to have a significant effect on the net pension liability
- Amount of pension expense in current period
- Balances of deferred pension outflows/inflows of resources
- Schedule presenting the net amount of deferred outflows/inflows and amount that will be recognized as a reduction of employer's net pension liability for each subsequent five years.

## Note Disclosures and RSI (continued)

### SINGLE EMPLOYER PENSION PLANS

### AGENT PENSION PLANS

### COST-SHARING PENSION PLANS

- Information regarding the components of plan fiduciary net position
  - Aggregate net pension liabilities, deferred pension outflows/inflows of resources, pension expense (if not separately displayed in the financial statements)
- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Number of employees covered by benefit terms, separately identifying amounts by the following employment groups: retired, inactive and active</li> <li>• Information on changes in net pension liability (asset), rolling forward total pension liability, plan fiduciary net position and net pension liability (asset)</li> </ul> | <ul style="list-style-type: none"> <li>• The amount of the net pension liability</li> <li>• The employer's proportion of the net pension liability including:                             <ul style="list-style-type: none"> <li>-basis on which its proportion was determined</li> <li>-changes, if any, in proportion since prior measurement date</li> </ul> </li> </ul> |
|--|---|

## Note Disclosures and RSI (continued)

### SINGLE EMPLOYER PENSION PLANS

### AGENT PENSION PLANS

### COST-SHARING PENSION PLANS

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Required supplementary information (RSI)                             <ul style="list-style-type: none"> <li>• 10-year schedule of changes in net pension liability (asset) as of the employer's measurement date</li> <li>• 10-year schedule of components of net pension liability and covered payroll</li> <li>• 10-year schedule related to contributions</li> </ul> </li> <li>• Include as notes to RSI                             <ul style="list-style-type: none"> <li>• Factors that significantly affect the identification of trends in the amounts reported</li> <li>• Significant methods and assumptions used in calculation actuarially determined employer contributions</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• RSI: 10-year schedule of the employer's proportion of the collective net pension liability, employer's net pension liability, pension plan's fiduciary net position as a percentage of the total pension liability, covered payroll, employer's net pension liability as a percentage of the covered payroll</li> <li>• Notes to RSI should include information about factors that significantly affect the identification of trends in the amounts reported</li> </ul> |
|--|--|

## Expense and Deferred Outflows/Inflows of Resources - Example

At June 30, 20X9, the District recognized pension expense of \$2,394. At June 30, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources \$	Deferred Inflows of Resources \$
Differences between expected and actual experience	2,657	142
Changes in assumptions	1,714	130
Net difference between projected and actual earnings on pension plan investments	-	2,194
Changes in proportion and differences between District's contributions and proportionate share of contributions	753	156
District's contributions subsequent to the measurement date	1,065	-
<b>Total</b>	<b>\$ 6,189</b>	<b>\$ 2,622</b>

The \$1,065 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2014. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Deferred Outflows (Inflows) of Resources
2014	\$ (272)
2015	159
2016	220
2017	543
2018	553
Thereafter	1,299

Department of Audits & Accounts  
Education Audit Division

## RSI – Cost-Sharing Employer

- 10-year schedules
  - Employer's proportion (%) of net pension liability (asset)
  - Proportionate share (amount) of collective NPL
  - Covered-employee payroll
  - Proportionate share as % of covered-employee payroll
  - Plan's fiduciary net position as % of TPL
    - Illustrative – only 5 of 10 years required

	20X9	20X8	20X7	20X6	20X5
District's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%
District's proportionate share of the net pension liability (asset)	\$ 14,910	\$ 11,738	\$ 12,972	\$ 13,495	\$ 14,892
District's covered-employee payroll	\$ 11,512	\$ 10,412	\$ 9,715	\$ 9,553	\$ 9,522
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.52%	112.74%	133.53%	141.26%	156.40%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%

Department of Audits & Accounts  
Education Audit Division

## RSI – Cost-Sharing Employer (continued)

- 10-year schedules (continued)
  - If statutory or contractual contribution requirements
    - Required contribution
    - Contributions in relation to required
    - Difference
    - Covered payroll
    - Contributions a % of covered payroll
  - Illustrative – only 5 of 10 years required

	20X9	20X8	20X7	20X6	20X5
Contractually required contribution	\$ 2,095	\$ 2,057	\$ 1,969	\$ 1,649	\$ 1,176
Contributions in relation to the contractually required contribution	(2,095)	(2,057)	(1,969)	(1,649)	(1,176)
Contribution deficiency (excess)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
District's covered payroll	\$ 12,097	\$ 10,962	\$ 10,063	\$ 9,634	\$ ,568
Contributions as a percentage of covered payroll	17.32%	18.76%	19.57%	17.11%	12.33%

Department of Audits & Accounts  
Education Audit Division

## SPECIAL FUNDING SITUATIONS

Department of Audits & Accounts  
Education Audit Division

## Special Funding Situation Overview Cost-Sharing Multiple-Employer

- Special funding situations are circumstances in which a nonemployer entity is **legally** responsible for making contributions **directly** to a pension plan to provide benefits for employees of another entity(ies) and either one of the following conditions exists:
  - Amount of contributions is **not** dependent upon one or more events or circumstances **unrelated** to pensions
  - Nonemployer entity is the only entity with a legal obligation to make contributions directly to the plan

 Department of Audits & Accounts  
Education Audit Division

## Special Funding Situation Employers Cost-Sharing Multiple-Employer

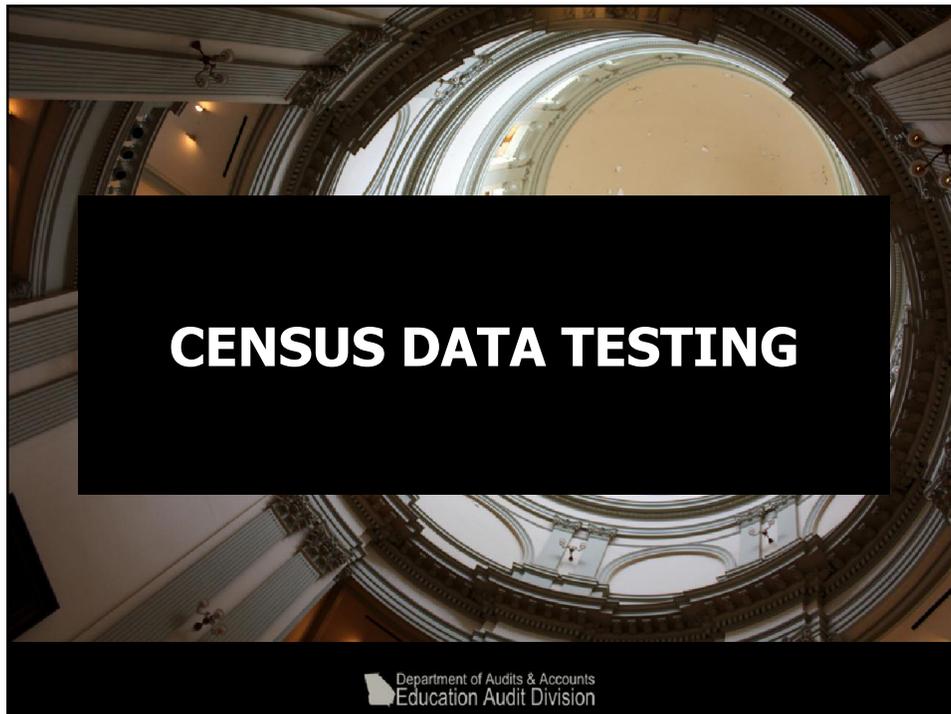
- Examples of contributions not dependent on events unrelated to pensions:
  - Nonemployer entity is required by statute to contribute a defined percentage of an employer's covered payroll directly to the plan
  - Nonemployer entity is required by terms of the pension plan to contribute directly to the pension plan a statutorily defined proportion of the employer's required contribution
- Examples of contributions dependent on events unrelated to pensions:
  - Nonemployer entity is required to make contributions to the pension plan based on a specified percentage of a given revenue source
  - Nonemployer entity is required to make contributions to the pension plan equal to an amount by which the nonemployer entity's ending fund balance exceeds a defined threshold amount

 Department of Audits & Accounts  
Education Audit Division

## Special Funding Situations – Employer accounting

- Special funding situation exists for:
  - Public School Employees' Retirement System (PSERS)
- Employer that has a special funding situation should:
  - Recognize its net pension liability and deferred outflows/inflows or resources as required under the standard, **net** of the nonemployer contributing entity's proportionate share of the amounts
  - Recognize pension expense as required under the standard without effect for the special funding situation
  - Recognize revenue for the pension support provided by the nonemployer contributing entity equal to the nonemployer's proportionate share of the collective pension expense

Department of Audits & Accounts  
Education Audit Division



## Census Data Testing – Active Employees

- Plan auditor selects employers to test at employer location using risk-based approach
  - Individually important employers (e.g. > 20% of plan) tested annually
  - Plan auditor performs risk assessment on remaining employers using tiered approach
    - Employers between 5% and 20% tested on a 5-year cycle
    - Employers less than 5% tested on a 10-year cycle
    - Many small employers may never be tested (less than 2%)

## Census Data Testing – Active Employees (continued)

- Employer auditor may perform procedures under examination engagement
- Employer auditor engaged to provide opinion on relevant assertions related to census data reported to plan during period
  - Consider the actuarial valuation date in determining which period to test
  - Efficient approach to satisfy plan auditor requirements

## Summary

- Most information to record and disclose for participation in TRS will be provided by plan administrator
- Exception – employer contributions subsequent to measurement date and prior to fiscal year-end
  - Employers will need to adjust TRS information for these amounts
- Information to record and disclose for PSERS will be provided by plan administrator (ERS)
- School systems will need to continue education efforts

## Questions?

## Example Investment Deferral and Amortization

Original Deferral Year	Recognition Period (years)	Differences between projected and actual earnings on plan investments	Amortization									
			20X0	20X1	20X2	20X3	20X4	20X5	20X6	20X7	20X8	
20X0	5	1,505	301	301	301	301	301					
20X1	5	-3,549		-710	-710	-710	-710	-710				
20X2	5	1,256			251	251	251	251	251			
20X3	5	-985				-197	-197	-197	-197	-197		
20X4	5	3,147					629	629	629	629	629	
		<u>1,374</u>										
Net increase (decrease) in pension expense			<u>301</u>	<u>-409</u>	<u>-158</u>	<u>-355</u>	<u>275</u>	<u>-26</u>	<u>684</u>	<u>432</u>	<u>629</u>	
Unamortized Amount - 20X4							<u>1,719</u>					

Department of Audits & Accounts  
Education Audit Division

## Example Investment Deferral and Amortization

Original Deferral Year	Recognition Period (years)	Differences between projected and actual earnings on plan investments	Amortization									
			20X0	20X1	20X2	20X3	20X4	20X5	20X6	20X7	20X8	
20X0	5	1,505	301	301	301	301	301					
20X1	5	-3,549		-710	-710	-710	-710	-710				
20X2	5	1,256			251	251	251	251	251			
20X3	5	-985				-197	-197	-197	-197	-197		
20X4	5	3,147					629	629	629	629	629	
		<u>1,374</u>										
Net increase (decrease) in pension expense			<u>301</u>	<u>-409</u>	<u>-158</u>	<u>-355</u>	<u>275</u>	<u>-26</u>	<u>684</u>	<u>432</u>	<u>629</u>	
Unamortized Amount - 20X4							<u>1,719</u>					

Department of Audits & Accounts  
Education Audit Division

# Questions?

