

GASB 68 FAQs

1. **GASB 68 indicates a net pension liability will be recognized on the modified accrual basis of accounting to the extent payments have matured – that is, benefit payments are due and payable and the pension plan’s fiduciary net position is not sufficient for payment of these benefits. Is this a situation we are likely to encounter in Ohio?**

No, based on the funding levels of the state-wide pension plans, local governments will not be booking a liability on the modified accrual basis of accounting.

2. **My local government has employees who participate in the defined contribution plan offered by one of the state-wide pension plans; however, the participation in the defined contribution plan is immaterial. Do I still need to report the participation in this immaterial plan?**

If the activity related to defined contributions is immaterial, the Auditor of State does not believe employer governments need to address it in their statements or notes. You may want to calculate the liability each year in case it reaches the point where it is material. However, if your government offers a defined contribution plan, you are responsible for understanding and implementing GASB 68 for your plan.

3. **GASB 68 addresses the possibility of reporting a net pension asset. Will that be something we encounter in Ohio?**

Some of the State-wide plans offer multiple plans and calculate the net pension liability separately for each smaller plan. It is possible the smaller plans could be reporting a net pension asset.

4. **GASB 68 changes the definition of covered payroll to the total payroll of covered employees. Is there any definition of what should be included in the total payroll of covered employees?**

GASB has not provided any guidance for defining “total payroll.” One acceptable definition of total payroll would be, “Total payroll includes all pensionable amounts plus any additional wages paid to employees based on time worked not already included in the pensionable amount.” This definition is not intended to include termination payments. Any reasonable definition will be accepted. This definition could be modified as GASB provides additional guidance.

GASB 82 has recently been issued and addresses this issue. Paragraph 6 indicates that required supplementary information should present covered payroll which is the payroll on which the contributions to a pension plan are based.

5. **When calculating my deferred inflows and outflows, I need to include the amount of the changes in the employer’s proportion percentages. How is this amount calculated?**

For the first year of implementation, STRS and SERS are using the same proportionate share percentage for the beginning and ending amounts, so no calculation is needed. In future years, the difference between the employer’s beginning NPL calculated at the prior year’s proportionate share percentage and the current year percentage becomes part of the employer’s deferred inflows/outflows, as the employer’s beginning NPL should not be restated for this change.

6. **When calculating my deferred inflows and outflows, I need to include the difference between the employer's contribution and the employer's proportional share of contributions. How is this amount calculated?**

In order to calculate from the beginning NPL to ending NPL, various components are needed. One of those components is the employer contributions. For the pension system as a whole, total employer contributions are used. If there is a difference between your government's proportionate share of total employer contributions and your government's actual GAAP basis employer contributions, the difference (if significant) becomes part of deferred inflows/outflows.

7. **My government has historically presented comparative statements, will I be able to present comparative statements the first year I implement GASB 68?**

If you have selected a measurement date 12 months prior to your fiscal year end, STRS and SERS will not have the information necessary to restate the comparative information. GASB has advised us that governments in this situation have two options:

1. The current year can be presented following GASB 68 and the prior year can be presented following GASB 27. The notes will need to indicate the comparative year has not been restated and explain why it has not been restated. All GASB 27 disclosures and any relevant GASB 27 RSI will need to be included for the comparative year. Additionally, all GASB 68 disclosures and relevant RSI will need to be included for the current year.
2. Do not present the comparative year in the year GASB 68 is implemented. The comparative year can be added back in the subsequent year.

You should also consider if GASB guidance is the appropriate accounting guidance to be followed.

8. **Which component of net position should be affected by the NPL?**

Generally, a liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets. It can be argued the NPL will not be liquidated with restricted assets; therefore the NPL can be closed to unrestricted. However, local governments may opt to allocate the NPL to restricted funds, if payment of the NPL is an allowable expense for the restricted fund. It is management's responsibility to determine if restricted amounts can be used for this purpose.

It is unlikely the NPL will be an allowable expense for Federal grants. For certain Federal and State pass-through grants an indirect cost plan may be needed to make this allocation. Local governments should contact their grantor agencies for guidance if they wish to pursue the option of allocating the NPL to funds with restricted grants. The Auditor of State and IPA firms will audit the pension liability allocation to Federal and other restricted programs in accordance with the guidance the local government receives from its grantor agency or legal counsel. Absent such opinions, the local government must have a reasonable and well documented rationale for allocating its pension liability to restricted funds in proportion to the number of employees compensated from such fund.

9. **Is there any portion of the NPL that is due in one year?**

The pension system's fiduciary net position is sufficient to make benefit payments that are due and payable for the next year, thus no amounts are considered due in one year.

10. Will my pension expense tie to the pension expense reported in the audited employer schedules from the pension systems?

Due to accounting for the change in proportionate share, the difference between the proportionate share of employer contributions and actual employer contributions, and accounting for specific one-time liabilities, the pension expense reported in the employer's financial statements could differ from the amounts reported in the audited employer schedules. Typically, the amounts will be comparable.

11. The RSI schedule which presents the government's proportionate share of the net pension liability is to be prepared as of the measurement date. Should the columns on the schedule be captioned using the measurement date or the fiscal year end date?

GASB has recently clarified these columns should be captioned using the fiscal year end date. A footnote can be added to explain the measurement date as it relates to the fiscal year end date.

12. A community school is staffed by employees of an Educational Service Center (ESC), traditional school district, or a Council of Governments (COG). Who is responsible for recording the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense in accordance with GASB 68?

Statutory requirements for SERS and STRS are included in Ohio Rev. Code (ORC) chapters 3309 and 3307 respectively.

- **SERS** – ORC 3309.01(A) defines an employer as, “boards of education, school districts, joint vocational districts, governing authorities of community schools established under Chapter 3314 of the Revised Code, a science, technology, engineering, and mathematics school established under Chapter 3326 of the Revised Code, educational institutions, technical colleges, state, municipal, and community colleges, community college branches, universities, university branches, other educational institutions, or other agencies within the state *by which an employee is employed and paid*, including any organization using federal funds, provided the federal funds are disbursed by an employer as determined by the above. In all cases of doubt, the school employees retirement board shall determine whether any employer is an employer as defined in this chapter, and its decision shall be final.”

ORC 3309.01(B)(2) includes the following within the definition of an ‘Employee’: “Any person who performs a service common to the normal daily operation of an educational unit even though the person is employed and paid by one who has contracted with an employer to perform the service, and the contracting board or educational unit shall be the employer for the purposes of administering the provisions of this chapter;”

- **STRS** – ORC 3307.01(A) defines an employer as, “the board of education, school district, governing authority of any community school established under Chapter 3314. of the Revised Code, a science, technology, engineering, and mathematics school established under Chapter 3326 of the Revised Code, college, university, institution, or other agency within the state *by which a teacher is employed and paid.*”

In this question, the employees / teachers are employed and paid by an ESC, traditional school district, or COG. These employers are required to enroll their employees in and remit the required contributions to the appropriate retirement system(s). If the contributions are remitted under the employer code of the ESC, traditional school district, or COG, the NPL, deferred outflows of resources, deferred inflows of resources and pension expense in accordance with the requirements of GASB 68 should be reported based on the employer code under which the contributions were made.

13. **Similar to question number 12 above, assume the community school is operated/staffed by employees of a non-governmental management company that does not meet the definition of employer under the statutes governing STRS and SERS requirements (ORC chapters 3307 and 3309). Who is responsible for recording the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense in accordance with GASB 68?**

Employees of community school operators (management companies) are statutorily required to be enrolled in either the pension plans through the State Teachers Retirement System (STRS) or the School Employees Retirement System (SERS). The retirement systems consider community schools to be the employer of record for pension purposes. Further, Ohio Rev. Code sections 3307.31 and 3309.51 require employer contributions to the pension systems to be deducted from the community school’s state foundation aid prior to the distribution to the community schools. The Ohio Department of Education administers these deductions and remits them to the appropriate retirement systems monthly.

GASB 68 defines special funding situations as circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either (1) the amount of contributions for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to pensions or (2) the nonemployer is the only entity with a legal obligation to make contributions directly to a pension plan. The approach required by GASB Statement No. 68 for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental nonemployer contributing entity in a special funding situation for defined benefit pensions is similar to the approach required for cost-sharing employers.

In the situation where a community school is operated/staffed by employees of a nongovernmental management company, the community school is the nonemployer contributing entity. Therefore, the community school should report the Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resource and Pension Expense in accordance with the requirements of GASB 68 for special funding situations.

The paragraph above also applies in situations where a nongovernmental management company contracts with a third party contractor for services (i.e. lunchroom, custodial services, etc.) within a community school. The statutes indicate that a person who performs a service common to the normal daily operation of an educational unit is considered an employee of the community school for pension purposes (subject to the limitations provided in House Bill 2). Additionally, state statutes referenced above require the contributions to be withheld from the community school's state foundation aid including the contributions related to employees of additional third party contractors.

14. **A group of community schools is managed by one nongovernmental management company. Assume the management company's employees provide services to more than one of the community schools in the group; however, the employer contributions related to all of the employees are made under the employer code of only one or two of the community schools in the group. Should the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense be reported by the community school whose employer code was used to remit the contributions; or should the amounts be allocated to all of the community schools in the group?**

We believe there are two potential answers related to this situation depending on the agreements between the management company and the community schools and between the community schools within the group.

- a. If Community School A provides services to the other community schools in the group, and Community School A receives charges for services from the other community schools in the group and there is an agreement between the various schools regarding the shared services, this should be treated as a shared services arrangement. In this situation, if the "employer" contributions are made by Community School A (i.e. withheld from Community School A's foundation monies), Community School A would record the net pension liability, deferred outflows of resources, deferred inflows of resources, and related pension expense.
- b. Assume there is no agreement as described in 'a' above where Community School A provides services to the other community schools in the group and receives charges for services from the other community schools in the group. Instead assume, the management company reports the wages and contributions under Community School A's employer code with the retirement systems to simplify the accounting, and then allocates costs to all community schools in the group. In this situation, it may be appropriate to allocate the net pension liability, deferred outflows of resources, deferred inflows of resources and the related pension expense to each of the applicable community schools in the group using a reasonable method that approximates the appropriate allocation of the cost allocation for the wages and other benefits of these employees.

For this situation, it is important that financial statement preparers and auditors carefully consider agreements/contracts in place for these groups to determine whether the reporting approach is reasonable.

15. As the fiscal agent for a legally separate organization, my local government pays the employer contribution for the employees of the legally separate organization. We are not considered the employer for W-2 purposes, should I report the NPL?

Typically, the GASB 68 liability is reported by the employer. If the government sacrificing the resources is different from the employer for W-2 purposes, then a special funding situation may exist. Guidance related to special funding situations is provided in paragraph 15 of GASB 68.

Some fiscal agents make employer contributions for a legally separate organization with the legally separate organization's resources, but under the fiscal agent's employer ID. Although the legally separate organization does not have their own pension system employer ID, they should have standing to be an employer of record of the pension system. In order for the legally separate organization to report the NPL, they would need to be a party to the GASB 68 employer employee exchange, and the employer contributions should be made from their resources (even if it is through a fiscal agent). In this situation, the fiscal agent does not need to report that portion of the NPL, rather it is the obligation of the legally separate organization where the GASB 68 exchange took place and where the resources are being sacrificed. The fiscal agent should develop an internal proportional share in a manner similar to the method used by the pension system. However, you may want to keep the special funding situation requirements in mind.

16. Will there be any additional authoritative guidance issued related to GASB 68?

The AICPA is planning to issue an Audit Risk Alert related to GASB 68. Once that information is available, any relevant guidance will be posted here.

17. Recently some of the State pension and OPEB plans have reported a net pension/OPEB asset. How is this amount reported?

The net pension/OPEB asset is considered a restricted asset as it can only be used to provide pension/OPEB benefits. Although GASB has no specific guidance, the following can be used as a guide.

GASB Codification 2200.710.06, indicates:

The restricted component of net position represents restricted assets reduced by liabilities, as well as deferred inflows of resources, related to those assets. Generally, a liability relates to restricted assets if the assets result from incurring the liability or if the liability will be liquidated with the restricted assets.

For those participating in GFOA's Certificate of Achievement Program, GFOA will be looking for restricted net position to be calculated as follows:

When calculating the amount of restricted net position related to the net pension/OPEB asset, the government should not include any amounts of the deferred outflows of resources and the deferred inflows of resources related to pension/OPEB. The net pension/OPEB asset did not result from the recognition of a liability, and there is not a reported liability that will be liquidated with the net pension/OPEB asset.