

- 1) What guidance has the AICPA issued related to employers participating in agent multiple-employer defined benefit pension plans?

The AICPA State and Local Government Expert Panel (SLGEP) issued a whitepaper titled, “Governmental Employer Participation in Agent Multiple-Employer Plans: Issues Related to Information for Employer Reporting” (Agent Whitepaper), which addresses numerous issues from the employer and employer auditor perspective that will arise from the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions.” The Agent Whitepaper is available at www.GASB.org and a link is available on www.IMRF.org.

In addition, the AICPA issued a series of auditing interpretations that address specific questions pertaining to both the auditors of the agent plans and employers. These interpretations support some of the conclusions reached in the Agent Whitepaper and include interpretations of AU-C 500, “Audit Evidence,” and AU-C 805, “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement.” These auditing interpretations are available at AICPA.org and a link is available on the IMRF website, www.IMRF.org.

- 2) What information will IMRF provide to employers that issue audited financial statements (accrual basis) in accordance with generally accepted accounting principles (GAAP) to assist employers in reporting pension amounts and disclosures under GASB 68? What audit assurance will be provided on this information?

Beginning for the year ended December 31, 2014, IMRF will provide the information IMRF employers (who report according to GAAP) need to properly implement GASB 68. Look for these documents in your IMRF Employer Access accounts:

- a. An actuarial valuation report specific to your employer (a sample report is currently available for the year ended December 31, 2013).*
- b. An Attestation Report. IMRF’s auditors will perform an examination in accordance with AT Section 101, Attest Engagements, on IMRF’s assertion on the completeness and accuracy of the census data maintained by IMRF for inactive and retired participants, and the accumulation of the census data provided to the actuary.*
- c. A Schedule of Changes in Fiduciary Net Position specific to your employer. This schedule will only include a separate column for each employer that has requested the information. For the year ended December 31, 2014, only, IMRF’s auditors will issue an opinion on each employer column in the schedule if requested by the employer.*
- d. An opinion on the Schedule of Changes in Fiduciary Net Position by Employer as a whole, beginning for the year ended December 31, 2015.*

- e. *A SOC 1 Type 2 Report on the operating effectiveness of IMRF's controls over the allocations of additions and deductions to employer accounts, beginning for the year ended December 31, 2015.*

- 3) How do employers request the audited Schedule of Changes in Fiduciary Net Position by Employer? Do employers that issue unaudited financial statements or financial statements prepared in accordance with a special purpose framework, such as cash basis or modified cash basis, need the audited information discussed in question 2C for disclosure in the notes to the financial statements?

IMRF sent a questionnaire to your IMRF Authorized Agent to determine whether your employer needs the full audited GASB 68 report information for the year ended December 31, 2014.

The questionnaire is due on August 22, 2014.

If your employer does not issue audited financial statements that are prepared in accordance with GAAP then your employer does not need a GASB 68 report and should not request one. The cost involved in producing a GASB 68 report for each employer is large.

- 4) Is the questionnaire mentioned in #3 available online?

Yes:

http://www.imrf.org/pubs/er_pubs/GASB68QU.pdf

- 5) What did you need back by August 22?

See the answer to question #3.

- 6) When will the information discussed in question #2 be available each year?

The audit opinion on the Schedule of Changes in Fiduciary Net Position by Employer and the Attestation Report on the census data controlled by IMRF for the year ended December 31, 2014 will be available by August 15, 2015.

In subsequent years, the audit opinion on the Schedule of Changes in Fiduciary Net Position, the SOC 1 type 2 Report, and the Attestation Report will be available by May 31.

- 7) Will IMRF allow others in addition to the IMRF Authorized Agent access to the information in question #2 (i.e. the IMRF Authorized Agent auditors)?

Only the IMRF Authorized Agent will have direct access to this information, however the IMRF Authorized Agent should share that information with their employer's business manager, auditors, or others as they see fit.

- 8) Can a government implement GASB 68 before receiving the information and audited schedules as discussed in question 2 above?

No.

- 9) Will IMRF allocate the pension amounts reported to employers in the actuarial valuation report and the Schedule of Changes in Fiduciary Net Position to enterprise funds or component units for an employer (primary government)?

No. All funds and component units of a government are reported under the same IMRF employer number. Accordingly, IMRF does not have the information to separately identify pension amounts for funds or component units for an employer. In accordance with GASB 68, each employer will have to allocate the pension amounts to enterprise funds and component units, as applicable, using the allocation methodology for cost-sharing plans discussed in paragraphs 48-82 of GASB 68.

- 10) What is a component unit?

Component units are discussed in GASB Statement No. 14, The Financial Reporting Entity; GASB Statement No. 39, Determining Whether Certain Organizations are Component Units; and GASB Statement No. 61, The Financial Reporting Entity Omnibus.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable, or for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

Component units must be reported in the primary government's annual financial report. Component units are reported under the same IMRF employer number as the primary government. Employers are required to allocate pension amounts to its component units.

- 11) What will the measurement date be for employers to record the pension amounts in their financial statements under GASB 68?

The measurement date must be within 12 months and one day of the employer's year-end. As a practical matter, the measurement date will always coincide with the year-end of IMRF (December 31).

For employers that have a different year-end than IMRF, the measurement date will always be December 31 preceding the employer's year-end. For example, if an employer has a year-end of June 30, 2015, the measurement date for the pension amounts will be December 31, 2014.

For employers that have the same year-end as IMRF (December 31), they can choose to use the current year-end or the prior year-end for the measurement date. For example, if an employer has a year-end of December 31, 2015, the employer can choose to use December 31, 2015, or December 31, 2014, as the measurement date.

However, once selected, the employer must use the measurement date consistently in future years. In these circumstances, employers should consider the specifics of their year-end and the availability of the audited information from IMRF as discussed in question 4 above.

- 12) To be able to use the audited schedules discussed in question 2, what are the employer and employer auditor responsibilities?

Employer:

Support the assumptions with appropriate, reliable, and verifiable information. *In the case of the discount rate, management should be able to support the discount rate specific to the employer (not the plan as a whole) based on a projection of the employer specific fiduciary net position and the amount of projected benefit payments expected to be paid from available employer specific fiduciary net position in future periods. A discount rate calculation with projections will be included in each actuarial valuation report provided to the employer.*

Support the underlying census data used by the actuary. *Management should obtain on an annual basis the census data file submitted by the plan to the actuary and determine whether the census data is complete and accurate. In evaluating the census data file, the employer may compare the information to underlying payroll records and the prior year census data file. The employer may also obtain a roll forward of the census data from one year to the next and review a reconciliation for any significant differences.*

Employer Auditor:

To use the work of the actuary as audit evidence, the employer auditor should evaluate the competence, capabilities, and objectivity of the actuary, obtain an understanding of the work of the actuary, and evaluate the appropriateness of the actuary's work as audit evidence as discussed in paragraph .08 of AU-C section 500. The employer auditor will also need to

obtain the census data file and perform certain audit procedures described in the Agent White paper.

13) How will employers and their auditors obtain the census data file?

The census data used for each employer will be available after the first quarter of the following calendar year.

14) To implement GASB 68, should there be a prior period adjustment?

According to paragraph 137 of GASB 68, to the extent practical, in the first period that the statement is applied, changes should be reported as an adjustment of prior periods, and the periods affected should be restated. It may not be practical for some governments to determine the amounts of all deferred inflows and outflows of resources related to pensions, as applicable, at the beginning of the period the statement is adopted. In such circumstances, beginning balances for deferred inflows and outflows related to pensions should not be reported. Please consult the statement for further guidance.

15) Can you explain why the discount rate isn't an expected value based on 7.5% and the Muni Bond Rate using a percentage of funded for weighting?

As required by paragraph 40 of GASB 67, the Discount Rate uses a calculation based on several factors:

1) A long-term rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and

2) A tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average of AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

It is expected that the discount rate will be a single, blended discount rate calculated in accordance with GASB 67.

16) As an auditor, who should we call for specific IMRF clients questions of our clients?

Any and all questions can be directed to Mark Nannini, Chief Financial Officer, 630-365-5345, and Jim Splitt, Financial Analyst, 630-706-4260.

17) Can you address the USCM card we received on the fiduciary information? I don't know what to do with it.

The United States Conference of Mayors (USCM) card is a deferred compensation plan, which is separate from IMRF. You will need to contact USCM for further information.

18) If it is available for 2015, will the Townships that have fiscal year ends of 3/31/15 be able

to use these reports for their audits?

See answer to question 6 above. Employers with fiscal year-ends 3/31/2015 could early adopt GASB 68 with the information that will be provided by the second quarter of 2015.

- 19) Our auditors tells us that we are not required to implement until 11/30/15 so for question 3 on the questionnaire. I plan on answering 1/31/15 for the date that I need the report. Is this acceptable?

No, employers with fiscal year ends 11/30/15 would use the measurement date of 12/31/2014. As stated in question #6, the audit opinion on the Schedule of Changes in Fiduciary Net Position by Employer and the attestation report on the census data will be available by August 15, 2015. Those reports will not be available by the date you indicate above.

- 20) Does the information provided in the IMRF report provide IMRF expense on the government wide basis? Are the contributions made by the government still the expense for the fund basis statement?

Yes, the information provided by IMRF as indicated in the answer to question 2 should be used to record the pension amounts in funds that report on the full accrual basis of accounting and in the government-wide financial statements, as those are also on the full accrual basis of accounting. The accounting for funds that report on the modified accrual basis of accounting was not changed by GASB 68.

- 21) Can the employer receive the total pension liability by individual employer/retiree? This is needed to allocate the costs between enterprise funds and governmental activities and components units.

Please refer to the answer to question #9.

- 22) The GASB 68 questionnaire asks when the employer needs the information from IMRF. Obviously, the employer wants to receive the information as soon as possible. What is a realistic turnaround time to request of IMRF without being overly burdensome?

Please refer to the answer to question #6.