

**GASB 68: PENSION FOR EMPLOYERS--- SCHOOL CALCULATION**

Illustration is based on Measurement Period of 7/1/13 through 6/30/14 and Employer reporting period ending 6/31/15. SDRS has provided the following information In their Schedule of Employer Allocations and Collective Pension Amounts--June 30, 2014

Employer Number	Employer Name	Total Employer Contributions	Employer Proportionate Allocation
99999	Example School	\$ 340,349.00	0.003243783

The amortization period is based on the remaining expected service lives of all employees that are provided with pensions through SDRS (active and inactive employees) at the beginning of the measurement date. The amortization period was calculated at **4.51** years.

**STEP 1** SDRS provides the employers the collective values of:

- Deferred outflows/Inflows
- Net Pension Liability (Asset)
- Net Pension Expense (Revenue)

	06/30/2013	06/30/2014
Collective deferred outflows of resources	\$ -	\$ 531,254,807.00
Collective deferred inflows of resources	\$ -	\$ 834,413,100.00
Collective net pension liability (asset)	\$ (281,945,382.00)	\$ (720,459,104.00)
Collective pension expense (revenue)	\$ -	\$ (135,355,429.00)
Employer's proportion	\$ -	0.32437830%

**STEP 2** Employer calculates proportionate shares of collective balances

Collective Measure	Proportionate Share at 6/30/13 (%)	Proportionate Share at 6/30/14 (0.32437830%)	Change in Proportionate Share
Deferred outflows of Resources	\$ -	\$ 1,723,275.31	\$ 1,723,275.31
Deferred inflows of Resources	\$ -	\$ 2,706,655.03	\$ 2,706,655.03
Net pension liability (asset)	\$ (914,569.64)	\$ (2,337,012.99)	\$ (1,422,443.36)

In addition, the Employers proportionate share of collective pension expense (revenue) for the measurement period ending June 30, 2014 is:  $\$ (135,355,429.00) \times 0.32437830\% = \$ (439,063.64)$

**STEP 3** Annual changes in Net Pension Liability (Asset) will generally be reported as pension expense (revenue) as they occur EXCEPT as follows:

**Plan Level**-- Provided by SDRS in the Notes to Schedule of Employer Allocations and Collective Pension Amounts--June 30, 2014. *Annual amortization of experience gain/loss and amortization of assumption changes are amortized over the average remaining service lives = 4.51 years . The amortization of the difference between projected and actual investment earnings on pension plan investments is amortized over a closed 5 year period.*

- Annual amortization of experience gain/loss.
- Annual amortization of assumption changes
- Annual amortization of difference between assumed and actual investment return to market value

**Employer Level**--Maintained by employer

**Step 4** **Changes in Proportion**- annual amortization of changes in NPL(A) and deferred inflows/ outflows due to change in allocation (proportion). *Amortized over the average remaining service lives.*

**Note: Collective deferred outflows/inflows of resources and the proportionate share as of 6/30/13 will not be available. The change in proportionate amounts between years is deemed immaterial.**

	Collective Amount at <u>06/30/2013</u>	Proportionate Share at ___% <u>(a)</u>	Proportionate Share at 0.32437830% <u>(b)</u>	Effect of Change in Proportion <u>(a)-(b)</u>
Deferred outflows of resources	\$ -			\$ -
Deferred inflows of resources	\$ -			\$ -
Net pension liability (asset)	\$ -			\$ -
			Net effect of the change in the Employer's proportion	\$ -

Therefore, the Employer reports an increase in pension expense (asset) equal to \$\_\_\_\_\_ and a deferred outflow (inflow) of resources of \$\_\_\_\_\_.

**STEP 5**

**Difference in Contributions**--annual amortization of difference between actual contributions and the proportionate share of contributions calculated using allocation method.

◊ Employer records indicate the following Employer contributions:

- July 1, 2013 to June 30, 2014 = \$ 340,349.00 *reported as a deferred outflow of resources at 6/30/14*
- July 1, 2014 to June 30, 2015 = \$ 350,500.00 *(contributions subsequent to measurement date of the collective net pension liability and before the end of the Employer's reporting period should be reported as deferred outflow of resources.)*

	Collective Amount	Proportionate Share at 0.32437830% (a)	Employer Contributions (b)	Difference (b) - (a)
Employer Contributions	\$ 104,923,505.00	\$ 340,349	\$ 340,349	\$ -

Therefore, the employer reports an increase in pension expense (revenue) equal to = \$ -  
and a deferred outflow (inflow) of resources of = \$ -

**STEP 6**

**Calculate the net effect of Steps 4 and 5**

	Deferred Outflows (Inflows) of Resources	Pension Expense (Revenue)
Change in Proportion (\$___)	\$ -	\$ -
Contributions during the measurement period (\$___)	\$ -	\$ -
Net amount recognized	\$ -	\$ -

**STEP 7**

**Prior Period Adjustment--for FY15 need to evaluate the components of prior-period adjustments to beginning net position.**

	Debit	Credit
Net Pension Asset	\$ 914,569.64	
Beginning Net Position		\$ 914,569.64

To add the balance of the proportionate share of the collective net pension liability (asset) as of the beginning of the initial period of implementation (determined as of the measurement date that would have been applied in the prior fiscal year if Statement 68 had been in effect). *Step 2 above.*

Deferred Outflows of Resources--Employer contributions 7/1/13 to 6/30/14	\$ 340,349.00	
Beginning Net Position		\$ 340,349.00

To add deferred outflows of resources balance for the contributions to the pension plan made between the measurement date of the beginning net pension liability (asset) and the beginning of the government's fiscal year. *Step 5 above.*

**STEP 8** Prepare Journal Entries for Employer's Fiscal Year Ending 06/30/15

	<u>Debit</u>	<u>Credit</u>
Deferred Outflows of Resources--proportionate share of collective	\$ 1,723,275.31	
Net Pension Asset--proportionate share of collective	\$ 1,422,443.36	
Deferred Inflows of Resources--proportionate share of collective		\$ 2,706,655.03
Pension Revenue--proportionate share of collective		\$ 439,063.64

To record changes in employer's proportionate share of the collective net pension liability (asset), collective deferred outflows/inflows of resources and collective expense (revenue). *Step 2 above*

Deferred Outflows of Resources--net deferral balances	\$ -	
Pension Expense--net deferral balances	\$ -	
Deferred Inflows of Resources--net deferral balances		\$ -
Pension Revenue--net deferral balances		\$ -

To record the changes in proportion and differences between actual contributions and proportionate share of contributions. *Step 6 above.*

Employer Contribution Expense--Employer contributions 7/1/13 to 6/30/14	\$ 340,349.00	
Deferred Outflows of Resources--Employer contributions 7/1/13 to 6/30/14		\$ 340,349.00

To record contributions made during the measurement period that were deferred. *Step 5 above.*

Deferred Outflows of Resources--Employer contributions 7/1/14 to 6/30/15	\$ 350,500.00	
Employer Contribution Expense--Employer contributions 7/1/14 to 6/30/15		\$ 350,500.00

To record employer contributions subsequent to the measurement date and before the end of employer's reporting period.

EXAMPLE SCHOOL DISTRICT NO. \_\_\_\_\_

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to generally accepted accounting principles applicable to government entities in the United States of America.

n. Pensions:

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension revenue, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. School District contributions and net pension asset are recognized on an accrual basis of accounting.

19. PENSION PLAN

**Plan Information:**

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

**Benefits Provided:**

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

**Contributions:**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The School District's share of contributions to the SDRS for the fiscal years ended June 30, 2015, 2014 and 2013 were \$350,500, \$340,349, and \$329,004, respectively, equal to the required contributions each year.

**Pension Assets, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:**

At June 30, 2014, SDRS is 107.% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the School District as of June 30, 2014 are as follows:

Proportionate share of net position restricted for pension benefits	\$34,408,604.93
Less proportionate share of total pension liability	\$32,071,591.94
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Proportionate share of net pension asset	\$ 2,337,012.99
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At June 30 2015, the School District reported an asset of \$2,337,012.99 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014 and the total pension asset used to calculate the net pension asset was based on a projection of the School's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2014, the School District's proportion was .32437830%.

For the year ended June 30, 2015, the School District recognized pension revenue of \$439,063.64. At June 30, 2015 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 197,742.90	\$
Changes in assumption.	\$1,525,532.41	\$
Net Difference between projected and actual earnings on pension plan investments.	\$	\$2,706,655.03
Changes in proportion and difference between District contributions and proportionate share of contributions.	\$	\$
District contributions subsequent to the measurement date.	\$ 350,500.00	\$
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TOTAL	\$2,073,775.31	\$2,706,655.03
	=====	=====

\$350,500 reported as deferred outflow of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension revenue as follows:

Year Ended June 30:

2016	\$ 185,702.13
2017	\$ 185,702.13
2018	\$ 185,702.13
2019	\$ 426,273.33
2020	\$
Thereafter	\$
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TOTAL	\$983,379.72
	=====

**Actuarial Assumptions:**

The total pension asset in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2010. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	4.7%
International equity	4.7%
Fixed income	1.8%
Real estate	5.5%
Cash	0.8%

**Discount Rate:**

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the School District's proportionate share of the net pension asset to changes in the discount rate. The following presents the School District's proportionate share of net pension asset calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the School's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
School District's proportionate share of the net pension asset (liability)	(\$2,309,408.40)	\$2,337,012.99	\$6,126,654.61

**Pension Plan Fiduciary Net Position:**

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

**Schedule of Required Supplementary Information**  
**SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

**South Dakota Retirement System**

Last 10 Fiscal Years \*  
(Dollar amounts in thousands)

	<u>2015</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>
District's proportion of the net pension asset	0.3243783%	%	%	%	%	%	%	%	%	%
District's proportionate share of net pension asset	\$ 2,337	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 5,672	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	41.20%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Plan fiduciary net position as a percentage of the total pension liability	107%	%	%	%	%	%	%	%	%	%

\* The amounts presented for each fiscal year were determined as of 06/30

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**Schedule of Required Supplementary Information**  
**SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS**  
**South Dakota Retirement System**

Last 10 Fiscal Years  
(Dollar amounts in thousands)

	2015	20__	20__	20__	20__	20__	20__	20__	20__	20__
Contractually required contribution	\$ 351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	\$ 351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 5,841	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	6.0%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

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**Notes to Required Supplementary Information  
for the Year Ended June 30, 20\_\_**

**Changes of benefit terms:**

**Changes of assumptions:**

**(NOTE: As required by paragraph 82 of Statement 68, information about factors that significantly affect trends in the amounts report 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.**

**(NOTE: The amounts presented for prior years should not be restated for the effects of changes—for example, changes of benefit terms or changes of assumption—that occurred subsequent to the measurement date of that information)**