NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum #2017-05

TO: **Local Government Finance Officials and Their Independent Auditors**

FROM: **Sharon Edmundson, Director, Fiscal Management Section**

SUBJECT: **GASB Statement 73 - Additional Reporting Guidance for the Law Enforcement Officers' Special Separation Allowance**

DATE: **August 03, 2016**

Earlier this year, we published Memo #2016-13, GASB Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which outlined some of the general guidance required by the statement. For units in North Carolina, this statement will mainly apply to the Law Enforcement Officers' Special Separation Allowance (LEOSSA); however, if your unit has other defined benefit pension arrangements that did not fall under the guidance of GASB Statement 68, this also will apply to them. In certain situations, stipends and subsidies for retiree health care for which there is no enforcement or accountability as to their use may meet the GASB definition of a defined benefit pension. These arrangements also will fall under this statement if assets to provide the benefit are not held in a GASB defined trust.

Unlike most GASB pronouncements, GASB Statement 73 has two implementation dates. Though most of the provisions of the statement go into effect in the fiscal year ending June 30, 2017, its asset reporting provision should be implemented in the June 30, 2016 financial statements. One of the major changes imposed by the statement is the requirement that in the fiscal year ended June 30, 2016 assets that have been accumulated for pension purposes in "plans" that 1) are not irrevocable, 2) are not dedicated to providing pensions to plan members, and 3) are not legally protected from creditors cannot be presented in the financial statements as a fiduciary pension trust fund. Units that have presented their LEOSSA in a pension trust fund that meets these criteria should eliminate that pension trust fund and present these assets in the fund providing the law enforcement function as committed fund balance. This change will require a restatement of equity on both the full and modified accrual statements due to a change in accounting principle. In most situations, this will affect the General Fund. Because there are no assets being held under a trust agreement that meets the criteria above, several things will change with respect to the disclosures and reporting for these units.

Notes to the Financial Statements

Because there is no trust agreement, there is no pension plan as defined by GASB Statement 68. In the calculation of net pension obligation that is presented in the notes to the financials, only benefits paid will be considered reductions of the net pension obligation. Under previous guidance, units that presented a pension trust fund that was not established under a trust agreement would include both benefits paid and contributions to the "plan" in this calculation. However, because under current guidance, there is no plan, contributions should not be included in this calculation. For units that had a net pension asset under prior guidance, it is likely that a net pension obligation will now result. In addition, the plan should no longer be considered funded, but instead would be more consistent with a pay as you go approach to fund benefit payments. This presentation and calculation of the obligation is similar to the approach currently used for OPEB plans and benefits and any assets being held outside of a trust that meets the qualifications set forth by GASB.

Disclosures that relate to the funding progress of the LEOSSA benefit will continue to present the actuarial value of assets.

A statement explaining how assets are being accounted for under GASB Statement 73 should be included in the notes to the financial statements. A sample note disclosure is provided in the Carolina County sample financial statements, page 35-J-81.

Required Supplementary Information (RSI)

The Schedule of Employer Contributions has been removed from RSI. The Schedule of Employer Contributions was a requirement of GASB Statement 25 (superseded by GASB Statement 50) which provided guidance for pension plan reporting. Again, because there is no plan recognized by GASB Statement 73, that requirement has been eliminated.

As mentioned above, the Schedule of Funding Progress will remain, and the actuarial value of assets will continue to be presented in this schedule. The Schedule of Funding Progress is a requirement of GASB Statement 27 (amended by GASB Statement 50); this statement is still in effect.

Measurement Date

As with GASB Statement 68, consideration must be given to the measurement date. The measurement date is the date on which the total pension liability is measured by your actuary. It should be no earlier than the end of the prior fiscal year for which the data is being used but it can be the same as the reporting date. Your choice should be applied consistently from period to period. Because the LEOSSAs are not cost-sharing plans, each unit of government will choose its own measurement date. If the measurement date is not the reporting date, units should be tracking two amounts – amounts paid, on the full accrual basis, for pension benefits and pension administrative expenses between the measurement date and the reporting date; these amounts will be reported as deferred outflows of resources in the financial statements. For example, if a unit chooses a June 30, 2016 measurement date for the June 30, 2017 reporting date, amounts paid for pension benefits and for administrative expenses between July 1, 2016 and June 30, 2017 will be reported as deferred outflows of resources.

General Reminders

The State and Local Government Finance Division (SLGFD) is requiring that an actuarial valuation be performed for the LEOSSA for all units. **Exceptions to this requirement must be received and approved in writing by the SLGFD.** It is important that the valuation provide all the information needed to implement GASB Statement 73. This includes determining a beginning balance for the total pension asset or total pension liability under the new standard. Just as it was with the implementation of GASB Statement 68, units will need the beginning balance to post implementation year entries for GASB Statement 73 in the fiscal year ending June 30, 2017. Please note, however, that the LEOSSA plans are not cost-sharing plans and each unit's data will be unique to that unit. The SLGFD will not be providing amounts needed to implement GASB Statement 73 for the LEOSSA for local governments.

Units whose LEOSSA is currently accounted for in a trust or trust-like arrangement that meets the criteria specified in GASB Statement 68 should continue to follow the guidance in that statement. Establishing a trust at any point in the future will trigger the requirements of GASB Statements 67 and 68.

As a final reminder, please note that this pronouncement does not affect any (OPEB) plans that you offer. GASB Statements 74 and 75, which will be implemented in the fiscal years ending June 30, 2017 and 2018, respectively, will dictate guidance for OPEB. In the meantime, accounting for OPEB remains the same.

Our Pension Standards page provides additional guidance and other helpful resources. Memo #2016-13 can be found on our Memos page. If you have any questions, please contact our staff at (919) 814-4299.