**Village of Barrington Hills**

# Memo

To: Karen Selman, Finance Committee

From: Rosemary N. Ryba, Treasurer

CC: Board of Trustees, Village President

Date: February 21, 2014

Re: Monthly Summary – **FEBRUARY**

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- The monthly snow removal contractual payment to Cuba Township Road District in the amount of $25,191.93 is included in Agenda Item 2.4. This is payment four (4) of six (6) with last payment due in April, 2014. The contractual payments are separate from material costs.

- Cook County property tax bills were mailed the last week of January, 2014 with the due date of March 4, 2014. The County included the taxing districts' debt and financial data pursuant to Section 2-243 of the Cook County Code of Ordinances (commonly referred to as Debt Disclosure Ordinance) on the property tax bills. See attached explanation.

- The Illinois Municipal Retirement Fund has released their preliminary 2013 investment return at 20.1%. Finalized information will be available in May, 2014. In comparison, last year they reported an investment return of 13.7%. A copy of the memo is attached.

- Agenda Item 2.2 now includes a Performance History report (2.2 a) provided by Wall & Associates (PPF Investment Firm) on a monthly basis, per request from the January, 2014 BOT Meeting.

- The attached GASB (Governmental Accounting Standards Board) Summaries/Status Bulletin details the upcoming changes with the implementation of Statements No. 67 & 68 to the notes to financial statements, as well as required supplementary information that will go into effect for fiscal years beginning after June 15, 2014. The Village's Police Pension Fund's fiscal year is January 31-December 31. The primary objective of GASB 68 (an amendment to GASB 67) is to improve accounting and financial reporting by state and local governments for pensions.

- Baker Tilly Virchow Krause will be returning to perform FY '13 audit fieldwork the weeks of February 24th and March 3rd. A draft of the financial statement will be available for an April, 2014 meeting of the Finance Committee.

- Pursuant to state statute, the Annual Appropriation Ordinance must be adopted prior to March 31, 2014 and filed with Cook, Kane, Lake and McHenry Counties within thirty days of adoption. A public hearing will be scheduled for the March 24, 2014 BOT Meeting.

- The Treasurer's Report 2.1 is available to the Board of Trustees in the e-Packet with other February Agenda materials. Archive records can be found online at [www.barringtonhills-il.gov/treasurer](www.barringtonhills-il.gov/treasurer).

Rosemary Ryba <treasurer@barringtonhills-il.gov>

# Cook County Property Tax Bill

1 message

**Rosemary Ryba** <treasurer@barringtonhills-il.gov> Tue, Feb 11, 2014 at 10:05 AM
To: Karen Selman <kselman@barringtonhills-il.gov>
Cc: Robert Kosin <rkosin@barringtonhills-il.gov>

Hi Karen,

The first installment 2013 tax bill received shows four columns and below is the explanation on where they come from:

Village of Barrington Hills:

1. Money Owed by your Taxing Districts - Based on the FY 2012 total debts and liabilities reported on audited financial statements/debt disclosure.

2. Pension and Healthcare Amounts Promised by your Taxing Districts - Based on the FY 2012 total pension liability for IMRF and PPF combined. The "healthcare" amount of that total is zero, as the Village does not pay out any post employment benefits. [If you look at your tax bill under that column, SD 220's pension/post employment benefits liability was $32,715,919]

3. Amount of Pension and Healthcare Shortage - That is the total unfunded pension and post employment benefit liability based on the FY 2012 data. Again, the Village has no post employment benefits so it is unfunded pension amounts for IMRF/PPF.

4. % of Pension and Healthcare Costs Taxing Districts Can Pay - That is the funded ratio/percentage of funding level of the combined IMRF/PPF plans.

The bills were sent out in this way by Treasurer Pappas to "take an important step toward educating taxpayers about the crippling level of debt and pension obligations carried by many of our local governments"

If you would like to review this further, please let me know.

**Rosemary N. Ryba, Treasurer**
**Village of Barrington Hills**
**112 Algonquin Road**
**Barrington Hills, IL 60010**
**847.551.3002 direct**
**847.551.3050 fax**

| TOTAL PAYMENT DUE |
|---|
| **$139.61** |
| By 03/04/14 (on time) |

# 2013 First Installment Property Tax Bill

| Property Index Number (PIN) | Volume | Code | Tax Year | (Payable In) | Township | Classification |
|---|---|---|---|---|---|---|
| [redacted] | 001 | 10035 | 2013 | (2014) | BARRINGTON | 2-41 |

| IF PAYING LATE PLEASE PAY | 03/05/14-04/01/14 | 04/02/14-05/01/14 | 05/02/14-06/01/14 | LATE INTEREST IS 1.5% PER MONTH, BY STATE LAW |
|---|---|---|---|---|
| | $141.70 | $143.79 | $145.88 | |

## TAXING DISTRICT DEBT AND FINANCIAL DATA

| Your Taxing Districts | Money Owed by Your Taxing Districts | Pension and Healthcare Amounts Promised by Your Taxing Districts | Amount of Pension and Healthcare Shortage | % of Pension and Healthcare Costs Taxing Districts Can Pay |
|---|---|---|---|---|
| Northwest Mosquito Abatement Wheeling | $2,810,924 | $4,038,297 | $756,458 | 81.27% |
| Barrington Countryside Fire Department | $5,058,979 | $0 | $0 | 00.00% |
| Barrington Library Dist | $2,000,000 | $7,435,431 | $2,087,965 | 71.92% |
| Barrington Hills Park Dist | $0 | $0 | $0 | 00.00% |
| Barrington Community Unit SD 220 | $76,878,750 | $32,715,919 | $9,324,375 | 71.50% |
| Harper Coll Comm College 512 (Palatine) | $251,361,880 | $10,679,564 | $10,679,564 | 00.00% |
| Village of Barrington Hills | $8,320,943 | $14,000,107 | $5,919,898 | 57.72% |
| Town of Barrington | $0 | $236,226 | $0 | 100.00% |
| Cook County Forest Preserve District | $187,950,000 | $318,850,490 | $146,283,534 | 54.12% |
| County of Cook | $7,487,394,994 | $15,264,096,075 | $7,430,213,149 | 51.32% |
| Total | $8,021,776,470 | $15,652,052,109 | $7,605,264,943 | |

For a more in-depth look at government finances and how they affect your taxes, visit *cookcountytreasurer.com*.

## IMPORTANT MESSAGES

- Pay this bill at cookcountytreasurer.com or at any Chase Bank.

## TAX CALCULATOR

| | | |
|---|---|---|
| 2012 TOTAL TAX | | 253.84 |
| 2013 ESTIMATE | X | 55% |
| 2013 1st INSTALLMENT | = | 139.61 |

The first installment amount is 55% of last year's total taxes. All exemptions, such as homeowner and senior exemptions, will be reflected on your second installment tax bill.

| PROPERTY LOCATION | MAILING ADDRESS |
|---|---|
| [redacted] | [redacted] |
| BARRINGTON HILLS IL 60010 | BARRNGTON HL IL [redacted] |

DETACH & INCLUDE WITH PAYMENT

| TOTAL PAYMENT DUE |
|---|
| **$139.61** |
| By 03/04/14 (on time) |
| If paying later, refer to amounts above. |

## IMPORTANT MESSAGES

This tax bill has been identified to be paid by a bank/ mortgage company. Verify by contacting your lender. Do not double-pay this bill.

SN 0020130100 RTN 500001075 AN (see PIN) TC 008911

T1L6

| Property Index Number (PIN) | Volume |
|---|---|
| [redacted] | 001 |

Amount Paid

$

Include name, PIN, address, location, phone and e-mail on check payable to Cook County Treasurer.

☐ Name/Mailing Address change? Check box and complete form on back to update your name and/or mailing address.

# Illinois Municipal Retirement Fund

2211 York Road Suite 500 Oak Brook IL 60523-2337

Member Services Representatives 1-800-ASK-IMRF

www.imrf.org


## GENERAL MEMORANDUM

**Number:** 647

**Date:** January 31, 2014

**To:** All Authorized Agents

**Subject:** Impact of 2013 Investment Return on Employer Funding Status, Employer Reserves, and Future Employer Contribution Rates

**We encourage each Authorized Agent to *share this memorandum* with the unit of government's chief financial officer, business managers, other officials, and governing body members.**

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### Executive Summary

This preliminary information is based on unaudited investment return data and projected actuarial information. Finalized information will be available in May 2014.

The estimated 2013 investment return for IMRF is 20.1%. This return translates into investment income of approximately $5.4 billion after investment and administrative expenses. Member and annuitant reserves will be credited approximately $1.5 billion as required by the Illinois Pension Code. Employer reserve balances will be credited with the balance, approximately $3.9 billion. On average, employer accounts will be credited approximately 52% of interest and residual investment income on their beginning of the year employer reserve balance. These credits reflect the fact that, as a sponsor of a defined benefit plan, IMRF employers share all the risks and rewards of investment returns.

Beginning on April 21, 2014, IMRF will present a series of local rate meetings throughout the state. At these meetings we will discuss the impact of year-end financial and actuarial data on IMRF as a whole and its estimated impact on individual employers. We will also discuss other current topics impacting IMRF and pension plans in general. IMRF will also present the same information at a webinar in May.

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- over -

**Investment Returns**

IMRF investment returns reflect financial markets over a calendar year. IMRF reports both a market basis return and an actuarial return. IMRF's estimated 2013 investment return on a *market* basis is 20.1%. IMRF's *actuarial* return is 7.8%. The actuarial return is used to determine employer contribution rates and actuarial funding status. This technique is employed to moderate fluctuations in employer contribution rates, and to delay the recognition of market returns that either exceed or fall short of the assumed actuarial return of 7.5% subject to a 20% corridor (the actuarial value of plan assets has to be within plus or minus 20% of the market value of assets).

**Employer Funding Status**

IMRF's 2013 aggregate funded status on an actuarial basis is expected to increase from 83.9% as of year-end 2012 to 87.3% at year-end 2013.

However, on a *market value* basis (which does not reflect the five-year averaging technique or the 20% corridor), IMRF's aggregate funded status is projected to increase from 85.4% to 96.8%.

Absent any significant changes in actuarial experience, most individual employers can expect the funded status of their plan to remain basically unchanged on an actuarial basis but to increase on a market value basis.

In April, we will furnish each employer its annual GASB 50 footnote information as well as GASB 68 information for 2013. This information will disclose both the actuarial and market based funded status for all plans for their active and inactive members.

**Impact on Employer Reserves**

By statute, IMRF must credit member and retiree reserves with 7.5% interest (approximately $1.48 billion for 2013) and pay approximately $113 million in administrative and direct investment expenses. That leaves $4 billion to be credited to employer reserve balances.

On average, employers will be credited approximately 52% based on their beginning of the year employer reserve balance. This credit reflects the fact that, as a sponsor of a defined benefit plan, IMRF employers share all the risks and rewards of investment returns. The actual amount credited to individual employers will vary from the average due to differences in annuitant reserve amounts.

Over the last ten years, IMRF employers have been credited or (charged) the following amounts: $3,973 million in 2013, $1,927 million in 2012, ($1,436) million in 2011, $1,713 million in 2010, $3,461 million in 2009, ($7,100) million in 2008, $871 million in 2007, $1,879 million in 2006, $753 million in 2005, and $1,300 million in 2004.

**Employer Contribution Rates**

Employer contribution rates consist of as many as six parts:

- Normal retirement costs
- Death in service benefits
- Temporary disability benefits
- Supplemental retirement benefits (13th payment)
- Amortization of over or under funding
- Early retirement incentives (employer option)

The ongoing cost of the IMRF benefit package for the regular plan covering normal retirement costs, death in service benefits, temporary disability benefits and supplemental retirement benefits, is 8.53% of payroll in 2014. Put another way, for each dollar of service an employee renders, the employer also incurs a pension cost of 8.53 cents. To the extent an employer is overfunded, the 8.53 cents is reduced to amortize its surplus. To the extent an employer is underfunded, the 8.53 cents is increased to collect the shortfall.

The average employer rate for the regular plan was 12.68% in 2013 and is 12.58% for 2014, a decrease in the rate of .10%. The 12.58% rate reflects the fact that the regular plan was less than 100% funded in the aggregate on an actuarial basis as of December 31, 2013.

The impact of 2013 investment returns on individual employer 2014 contribution rates is difficult to forecast, since each employer has a unique rate affected by its own demographics and funded status as well as its mix of Tier 1 and Tier 2 members.

**IMRF Meetings**

To discuss the potential impact on individual employers in 2015 and beyond, IMRF will conduct a series of Employer Rate meetings throughout the state beginning April 21, 2014. We will also discuss other current topics impacting IMRF and pension plans in general.

In May, IMRF will present a webinar in which this information will also be discussed. Details concerning these meetings and the webinar will be furnished in a subsequent General Memorandum.

IMRF will publish the time, date and locations of the Employer Rate meetings and the time and date of the related webinar in mid-March.

**Questions**

If you have any questions regarding the information presented in this memorandum, please call or e-mail Chief Financial Officer Mark Nannini at (630) 368-5345 or mnannini@imrf.org.

Sincerely,

Louis W. Kosiba
Executive Director

# SUMMARY - STATEMENT NO. 68

## SUMMARIES / STATUS

**SUMMARY OF STATEMENT NO. 68**
**ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS—AN AMENDMENT OF GASB STATEMENT NO. 27**
**(ISSUED 06/12)**

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans,* revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).

- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

**Defined Benefit Pensions**

This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total pension liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the measurement date and to incorporate the effects of projected salary changes (if the pension formula incorporates future compensation levels) and service credits (if the pension formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs). Projections also are required to include the effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

**Single and Agent Employers**

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.

This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

***Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting***

In governmental fund financial statements, a net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

***Notes to Financial Statements***

The Statement requires that notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:

- For the current year, sources of changes in the net pension liability
- Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies
- The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.

***Required Supplementary Information***

This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

- Sources of changes in the net pension liability
- The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

If the contributions of a single or agent employer are actuarially determined, the employer should present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

**Cost-Sharing Employers**

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This Statement requires that notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also should disclose information about how their contributions to the pension plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios.

**Defined Contribution Pensions**

An employer whose employees are provided with defined contribution pensions is required to recognize pension expense for the amount of contributions to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. A change in the pension liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to a defined contribution pension plan. In governmental fund financial statements, pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to a pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. A pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Notes to financial statements of an employer with a defined contribution plan should include descriptive information about the pension plan and benefit terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

**Special Funding Situations**

In this Statement, special funding situations are defined 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.

This Statement requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions with adjustments for the involvement of nonemployer contributing entities. The employer is required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the nonemployer contributing entities. This Statement requires the employer to disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities and to present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach required by this Statement 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.

The information that should be disclosed in notes to financial statements and presented in required supplementary information of a governmental nonemployer contributing entity in a special funding situation depends on the proportion of the collective net pension liability that it recognizes. If the governmental nonemployer contributing entity recognizes a substantial proportion of the collective net pension liability, it should disclose in notes to financial statements a description of the pensions, including the types of benefits provided and the employees covered, and the discount rate and assumptions made in the measurement of the net pension liability. The governmental nonemployer contributing entity also should present schedules of required supplementary information similar to those required of a cost-sharing employer. Reduced note disclosures and required supplementary information are required for governmental nonemployer contributing entities that recognize a less-than-substantial portion of the collective net pension liability.

This Statement also establishes requirements related to special funding situations for defined contribution pensions.

**Effective Date and Transition**

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

**How the Changes in This Statement Will Improve Financial Reporting**

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of pension measurements.
- Explanations of how and why the net pension liability changed from year to year will improve transparency.

- The summary net pension liability information, including ratios, will offer an indication of the extent to which the total pension liability is covered by resources held by the pension plan.

- The contribution schedules will provide measures to evaluate decisions related to the assessment of contribution rates—in comparison to actuarially, statutorily, or contractually determined rates, when such rates are determined. It also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with those contribution rates.

The consistency and transparency of the information reported by employers and governmental nonemployer contributing entities about pension transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the pension plan's fiduciary net position associated with the pensions of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return

- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations

- Immediate recognition in pension expense, rather than a choice of recognition periods, of the effects of changes of benefit terms and the effects of projected pension plan investment earnings

- Recognition of pension expense that incorporates deferred outflows of resources and deferred inflows of resources related to pensions over a defined, closed period, rather than a choice between an open or closed period.

The comparability of reported pension information also will be improved by the changes related to the attribution method used to determine service cost and the total pension liability, requirements for immediate recognition in pension expense of certain items, and the establishment of standardized expense recognition periods for amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions.

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Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 5 and 6 discuss the applicability of this Statement.