



THE RETIREMENT SYSTEMS OF ALABAMA

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TRS Participating Employers:

The Governmental Accounting Standards Board (GASB) has issued three statements related to pensions (i.e. GASB Statements 67, 68, and 71). GASB Statement 68, “*Accounting and Financial Reporting for Pensions*” and GASB Statement 71 “*Pension Transition for Contributions Made Subsequent to the Measurement Date*” are effective for employers with fiscal years ending June 30, 2015 and after. These new standards will affect reporting for all employers participating in the Teachers Retirement System of Alabama (TRS) cost-sharing pension plan. The September 30, 2016 employer’s net pension liability calculation has been determined based upon the September 30, 2014 TRS actuarial valuation rolled forward to September 30, 2015 using standard roll-forward techniques.

Also, we wish to direct you to GASB 82 which amends GASB 68. Prior to the issuance of GASB 82, GASB 68 required the presentation of covered-employee payroll. Statement 82 instead requires the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

The audit plan outlined below is based on the AICPA Whitepapers published by the State and Local Government Expert Panel (SLGEP) *Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting* and *Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements*. This memo assumes that each CPA firm has read and is knowledgeable of the Whitepapers. The Whitepapers can be accessed at:

<http://www.aicpa.org/interestareas/governmentalauditquality/resources/gasbmatters/pages/gasbpensionsissues.aspx>

Schedule of Employer Allocations

TRS has prepared a schedule of employer allocations that displays the proportionate relationship of employer contributions of each employer to all employers and calculates each employer’s allocation percentage. In addition, we have engaged our auditor to obtain reasonable assurance and report on this schedule. Their report, which will be issued prior to October 31, 2016, will be available on our website, www.rsa-al.gov.

Schedule of Pension Amounts by Employer

TRS has prepared a schedule of pension amounts by employer which presents the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense of each employer. In addition, we have engaged our auditor to obtain reasonable assurance and report on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities included in this schedule. Their report, which will be issued prior to October 31, 2016, will be available on our website, www.rsa-al.gov.

Each participating employer is solely responsible for its financial statements and for evaluating the information used to recognize and disclose pension amounts therein. Likewise, each participating employer’s auditor is solely responsible for the audit of the employer’s financial statements. In accordance with the SLGEP’s whitepaper *Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting*:

“the employer and employer auditor may use the plan auditor’s report on the schedules to provide evidence that the pension amounts allocated to the employer and included in the employer’s financial statements are not materially misstated.”

Additional Information Regarding Census Data Testing

Total pension liability and contributions revenue and receivable are dependent on the completeness and accuracy of census data. As such, processes and controls over census data for active employees, inactive employees and retirees are critical. The TRS has designed and implemented a strong process of internal controls over the census data of our members. These control processes were examined by an independent firm who issued a report stating that controls were operating effectively. This *Report on Management’s Description of Retirement Systems of Alabama’s System and the Suitability of the Design and Operating Effectiveness of Controls*—SSAE 16 Type 2 report—for the period October 1, 2014 – September 30, 2015 can be found at www.rsa-al.gov. RSA’s auditors obtained an understanding of the processes and controls we have in place over census data as part of the risk assessment they used in their audit. In accordance with the SLGEP’s whitepaper *Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements* our auditors selected a representative group of contributing employers for testing underlying payroll records of employees who are potentially eligible for participation in the TRS plan. Contributing employers will be subject to testing each year on a rotating basis following the guidance outlined below:

- Employers constituting more than 20% of total contributions will be tested annually.
- Employers constituting at least 5% of total contributions will be tested on a 5 year cycle.
- Employers constituting at least 2% of total contributions will be tested on a 10 year cycle.

Employers, regardless of size, may be subject to other audit tests that fall outside the scope of the whitepaper mentioned above. Additionally, our auditors tested census data maintained by TRS for inactive employees and retirees.

Modification to GASB 71 Journal Entry

Please note a modification to your September 30, 2016 GASB 71 Journal Entry. Deferred Outflows of Resources – Employer Contributions from 10/1/2015 – 9/30/2016 is the amount of employer contributions related to **all components of employer rate** (Normal, Accrued Liability, PRDB, Admin and TLI) net of any refunds or error service payments.

In order to assist participating employers to implement GASB 68 and GASB 71, we have enclosed the following report:

1. Employer specific data related to the proportionate share of pension data including journal entries

All other information provided by RSA related to GASB 68 and 71 is located on our website, www.rsa-al.gov.

We hope that this information helps you to implement GASB 68 and GASB 71. Please provide all of this information to your auditors as they will need it during their audit work.

Sincerely,



Diane E. Scott
Chief Financial Officer
Retirement Systems of Alabama