_____ School District No. _____
Notes to Financial Statements
June 30, 2016

The Office of the Auditor General has updated these DRAFT reporting guidelines for 2016 following Governmental Accounting Standards Board (GASB) Statements No. 68 and 73 based on pension plan information that is currently available. We have included additional "Source" instructions to indicate where entities should obtain information to complete the required disclosures.

These reporting guidelines are subject to change as new information becomes available. We are exposing this draft for comments, questions, and feedback. Please feel free to e-mail the Office's Professional Practice Group at ppg@azauditor.gov.

These reporting guidelines include only the pensions and other post-employment benefits note disclosure and required supplementary information (RSI). Other pension related disclosures are required in the Summary of Significant Accounting Policies and Long-term Liabilities notes as shown in our 2015 reporting guidelines available on our Web site at www.azauditor.gov.

These reporting guidelines are neither authoritative nor required to be followed. Instead, they provide sample displays and disclosures to help ensure consistent and accurate presentation.

Understanding these reporting guidelines:

- ***This font signifies an instruction or explanation that should not appear in the note disclosures or supplementary information.***
- **This highlight signifies information that has changed from the final 2015 reporting guidelines.**

Note _ - Pensions and Other Postemployment Benefits

With the implementation of GASB Statement No. 68, there are differences between the disclosures required for pensions and OPEB. Accordingly, the disclosures below include some information for pensions that is not included for OPEB and vice versa.

Plan description—District employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is a component unit of the State of Arizona. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

Benefits provided—The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial membership date: Before July 1, 2011	 On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions—In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the District was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. ***If the District also made alternative contributions for retired members who returned to work, add the following sentence:*** In addition, the District was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the District in positions that would typically be filled by an employee who contributes to the ASRS. The District's contributions to the pension plan for the year ended June 30, 2016, were $_____ ***Source: district records***. The District's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows: ***Source: district records***

Year ended June 30	Health Benefit Supplement Fund	Long-Term Disability Fund
2016	$	$
2015		
2014		

During fiscal year 2016, the District paid for pension and OPEB contributions as follows: ___ percent from the General Fund, ___ percent from major funds, and ___ percent from other funds.

Pension liability—At June 30, 2016, the District reported a liability of $_____ ***Source: ASRS Schedule of Pension Amounts By Employer*** for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2015. The District's proportion measured as of June 30, 2015, was _____ percent ***Source: ASRS Schedule of Employer Allocations***, which was an (increase/decrease) of _____ ***Source: Calculation of difference between percentage from ASRS Schedules of Employer Allocations for current and prior measurement date*** from its proportion measured as of June 30, 2014.

If changes expected to have a significant effect on the measurement of the District's proportionate share of the collective net pension liability occurred between the measurement date and the reporting date, the District should provide a brief description of the nature of the changes and the amount of the expected resultant change in the District's proportionate share of the collective net pension liability, if known.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2016, the District recognized pension expense for ASRS of $_____ ***Source: ASRS Schedule of Pension Amounts By Employer***. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: ***Source: ASRS Schedule of Pension Amounts By Employer***

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	$
Net difference between projected and actual earnings on pension plan investments		
Changes in proportion and differences between district contributions and proportionate share of contributions		
District contributions subsequent to the measurement date ***Source: district records***		
Total	$	$

The $_____ reported as deferred outflows of resources related to ASRS pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows: ***Source: ASRS Schedule of Net Deferred Outflows and Inflows of Resources by Employer to be Recognized in Pension Expense, Five Years and in Aggregate Thereafter, which is by measurement date. The schedule below should be by the District's reporting fiscal year. For example, in the schedule below, report the June 30, 2016 (measurement date), ASRS Schedule amount for the District's June 30, 2017 (reporting date).***

Year ending June 30	
2017	$ ***ASRS FY2016 amount***
2018	***ASRS FY2017 amount***
2019	***ASRS FY2018 amount***
2020	***ASRS FY2019 amount***

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.93%
Total	100%	

Discount rate—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected 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 liability.

Sensitivity of the District's proportionate share of the ASRS net pension liability to changes in the discount rate—The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate: ***Source: ASRS Schedule of Pension Amounts By Employer***

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's proportionate share of the net pension liability	$	$	$

Pension Plan Fiduciary Net Position—Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

Pension contributions payable—The District's accrued payroll and employee benefits included $_____ of outstanding pension contribution amounts payable to ASRS for the year ended June 30, 2016. ***Pension contributions payable should not include contributions to the ASRS health benefit supplement fund and long-term disability fund. If the District reported other payables to ASRS for pensions as of June 30, 2016, the District should disclose the payable amount, significant terms related to the payable, and a description of what gave rise to the payable.***

Note: If the District participates in other OPEB plans or provides its own OPEB, such as allowing its retirees to participate in its employees' healthcare plans (i.e., implicit rate subsidy), the District should follow the accounting and disclosure requirements of GASB Statement Nos. 43 or 45.

GASB Statement No. 43—Include the following disclosures for OPEB plans that are formal trusts.

GASB defines formal trusts as OPEB plans through which assets are accumulated and benefits are paid as they come due in accordance with an agreement between the district and plan members and their beneficiaries, and in which:

- ***employer contributions to the plan are irrevocable,***
- ***plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and***
- ***plan assets are legally protected from creditors of the district or the plan administrator.***

OPEB plans can be either defined benefit or defined contribution plans.

- ***For defined benefit OPEB plans:***

  a. ***If a stand-alone financial report for the plan is not issued, the District should present a schedule of funding progress and schedule of employer contributions as required supplementary information. See GASB Statement No. 43 for more information on the required schedules and note disclosures.***

  b. ***If a stand-alone financial report for the plan is issued, the District may limit its plan disclosures to:***
     - ***identifying the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer plan,***
     - ***the number of participating employers and other contributing entities,***
     - ***the basis of accounting,***
     - ***a description of how fair value of investments is determined,***
     - ***a brief description of the terms of any long-term contracts for contributions to the plan and the amounts outstanding as of June 30, 2016, and***

- *information about how to obtain the stand-alone plan financial report.*

- *For defined contribution plans:*

  a. *If a stand-alone financial report for the plan is not issued, see GASB Statement No. 43 for more information on required note disclosures.*

  b. *If a stand-alone financial report for the plan is issued, the District may limit its plan disclosures to:*
     - *identifying the plan as a defined contribution plan,*
     - *the number of participating employers and other contributing entities,*
     - *the basis of accounting,*
     - *the fair value of plan assets (unless plan assets are reported at fair value),*
     - *a brief description of how the fair value is determined,*
     - *identification of investments (other than those issued or guaranteed by the U.S. government) in any one organization that represent 5 percent or more of plan net position, and*
     - *information about how to obtain the stand-alone plan financial report.*

Include a statement of plan net position and statement of changes in plan net position in the District's financial statements for OPEB plans that are formal trusts. See GASB Statement No. 43 for more information on these required statements.

GASB Statement No. 45—Include the following disclosures for OPEB plans that are not formal trusts:

- *Plan description;*
- *Funding policy;*
- *Annual OPEB cost and the dollar amount of contributions made;*
- *For the current year and each of the two preceding years, annual OPEB cost, percentage of annual OPEB cost contributed during that year, and net OPEB obligation at the end of the year;*
- *Information about the plan's funded status as of the most recent actuarial valuation date; and*
- *Disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the annual required contribution, annual OPEB cost, and the funded status and funding progress of OPEB plan(s) are based.*

Also, the District will need to add a required supplementary information section for the most recent actuarial valuation and the two preceding valuations.

See GASB Statement No. 45, paragraphs 24-26, for a more complete explanation of the disclosure requirements. See GASB Statement No. 45, paragraphs 11-21, for an explanation of how to account for the implicit rate subsidy.

_____ School District No. _____
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
June 30, 2016

GASB Statement No. 68 requires that covered-employee payroll be disclosed in the pension RSI schedules. In December 2015, GASB issued an exposure draft of a proposed statement that would amend GASB Statement No. 68 to require the payroll amounts disclosed in the pension RSI schedules to be covered payroll rather than covered-employee payroll. Covered payroll means the portion of compensation on which contributions to a pension plan are based. Covered-employee payroll means total compensation of employees that are provided with pensions through the pension plan. Covered-employee payroll may include compensation on which the District does not make contributions.

The proposed amendment to GASB Statement No. 68 would not be effective until the fiscal year ending June 30, 2017; however, the standard would encourage earlier application. Accordingly, if the amendment is issued as a final standard, which GASB is scheduled to do in March 2016, the District may report covered payroll rather than covered-employee payroll in the pension RSI schedules for the year ended June 30, 2016. If the District chooses to early implement the new standard, it should disclose that fact in Note 1 to the financial statements, change "covered-employee payroll" to "covered payroll" in the pension RSI schedules, and restate the payroll amounts for all years presented.

Payroll amounts presented in the schedule below should be for the fiscal year ended on the measurement date of the net pension liability. For example, the payroll reported in the fiscal year 2016 column (the District's fiscal year-end) should be the payroll for fiscal year 2015 (the measurement date of the net pension liability).

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	**2015 (2014)**	**2014 through 2007**
District's proportion of the net pension liability ***Source: ASRS Schedule of Employer Allocations***	%	%	Information not available
District's proportionate share of the net pension liability ***Source: ASRS Schedule of Pension Amounts By Employer***	$	$	
District's covered-employee payroll ***Source: district records***	$	$	
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	%	%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

See accompanying notes to pension plan schedules.

_____ School District No. _____
Required Supplementary Information
Schedule of District Pension Contributions
June 30, 2016

See instructions on the* Schedule of the District's Proportionate Share of the Net Pension Liability Cost-Sharing Pension Plans *regarding using covered payroll vs. covered-employee payroll in the pension RSI schedules.

If the District has the information required below for periods prior to fiscal year 2014, the District should modify the schedule below to provide information for as many years as such information is available.

Amounts presented in the schedule below should be for the District's fiscal year-end.

Statutorily required contributions presented below should exclude amounts, if any, associated with payables to the pension plan that arose in a prior fiscal year and those associated with separately financed specific liabilities of the District to the pension plan. (GASB Statement No. 73, paragraph 119)

Arizona State Retirement System	**Reporting Fiscal Year**			
	2016	**2015**	**2014**	**2013 through 2007**
Statutorily required contribution ***Source: The sum of the following—*** • ***For active members: actual covered payroll from county records multiplied by the pension portion of the employer contribution rate*** • ***For retired members: actual covered payroll from county records multiplied by the pension portion of the alternative contribution rate***	$	$	$	Information not available
District's contributions in relation to the statutorily required contribution ***Source: district records***				
District's contribution deficiency (excess)	$	$	$	
District's covered-employee payroll ***Source: district records***	$	$	$	
District's contributions as a percentage of covered-employee payroll	%	%	%	

See accompanying notes to pension plan schedules.

_____ School District No. _____
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2016

Note 1 – Factors That Affect Trends

Disclose information about the factors that significantly affect trends in the amounts reported in the schedules including, for example, changes in benefit provisions, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Information about investment-related factors that significantly affect trends in the amounts reported should be limited to those factors over which the pension plan or the District have influence, for example, changes in investment policies. Information about external, economic factors, for example, changes in market prices, should not be presented. (GASB 73, paragraph 117)