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To: Chief Executive Officers and Chief Fiscal Officers

From: Division of Local Government Services and Economic Development

Subject: Revision to August 2004 Bulletin - *Modification of NYS Retirement Systems' Annual Payment Date and Reserve Provision for Pension Contributions*

Please give copies of this bulletin to others who may need this information.

Purpose of Bulletin

The purpose of this bulletin is to revise our August 2004 bulletin '*Modification of NYS Retirement Systems' Annual Payment Date and Reserve Provision for Pension Contributions*' based upon the December 2004 release of the Government Accounting Standards Board (GASB) Technical Bulletin No. 2004-2 '*Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.*' This revised bulletin also contains sample journal entries for recording pension expenditures and liabilities.

Revision Based on GASB Technical Bulletin

GASB issued Technical Bulletin No. 2004-2 to clarify existing governmental accounting standards for recognition of pension expenditures/expense and liabilities. As a result of guidance contained in this technical bulletin, participating municipalities and school districts that prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP)¹ will be required to recognize an expenditure for required contributions to the New York State and Local Retirement Systems (NYSLRS) and Teachers' Retirement System (TRS) that are due for (attributed to) the financial reporting period and a liability for any of those contributions that remain unpaid at the end of the period.

For example, if a retirement contribution payment that is due on a date subsequent to a municipality's December 31, 20XX fiscal year-end includes required contributions for the January through December pay periods of the year then ended, the municipality should recognize the unpaid contributions attributable to those pay periods as expenditures and a liability in its

¹ Financial statements prepared in accordance with GAAP require the following:

- Management discussion and analysis (MD&A)
- Basic financial statements including: Government-wide and Fund financial statements; Notes to the financial statements
- Required supplementary information (RSI).

fund-level financial statements for the year ended December 31, 20XX. Accounting recognition of retirement expenditures/expenses and liabilities is the same regardless of fund type.

Prepayment Option of February 1, 2005 NYSLRS Retirement System Billing

Due to the concern expressed by many participating employers regarding the February 1, 2005 retirement billing payment date, Comptroller Hevesi offered employers a prepayment (on or before December 15, 2004) option of the February 1, 2005 NYS Local Retirement System bill. This revised bulletin also provides accounting and reporting guidance for municipalities who opted to prepay their Retirement System bill by December 15, 2004.

Accounting and Reporting Requirements

The following tables provide summary information for recognition of retirement expenditures and liabilities based on a municipality's fiscal year-end. For illustrative purposes, only the more common fiscal year-end dates have been included. Municipalities who have fiscal year-end dates that differ from those dates listed in the tables, and who prepare their financial statements in accordance with GAAP, should adjust their calculation of retirement expenditures and liabilities accordingly.

Amounts billed to municipalities and school districts by the Retirement Systems are based on 12-month periods. For the New York State and Local Retirement System, the billing period is April 1st through March 31st. For the New York State Teachers' Retirement System, the billing period is July 1st through June 30th. The fractions that appear in the following tables represent the number of months that pertain to the reported amount of either the prepaid expense or an accrued liability and the related retirement expenditure for that particular fiscal year.

Table 1				
Accounting and Calculation Guidance for GAAP Compliance				
Assumes a December 15, 2004 (NYSLRS) payment date				
	FISCAL YEAR ENDING			
	12/31/2004	5/31/2005	6/30/2005	6/30/2005
Retirement System	LRS*	LRS*	LRS*	TRS*
Prepaid Expense (Asset)	3/12			
Accrued Liability	-	2/12	3/12	12/12
Expenditure	<u>12/12</u>	<u>12/12</u>	<u>12/12</u>	<u>12/12</u>
2003/2004 System Billing	3/12	-	-	-
2004/2005 System Billing	9/12	10/12	9/12	12/12
2005/2006 System Billing	-	2/12	3/12	-

* Note: Prior period adjustments will be required to restate beginning fund balance(s) in accordance with GAAP for participating municipalities or school districts that have not accrued prior LRS or TRS payments, as applicable.

Table 2
Accounting and Calculation Guidance for GAAP Compliance
Assumes a February 1, 2005 (NYSLRS) payment date

	FISCAL YEAR ENDING			
	12/31/2004	5/31/2005	6/30/2005	6/30/2005
Retirement System	LRS*	LRS*	LRS*	TRS*
Accrued Liability	9/12	2/12	3/12	12/12
Expenditure	<u>12/12</u>	<u>12/12</u>	<u>12/12</u>	<u>12/12</u>
2003/2004 System Billing	3/12	-	-	-
2004/2005 System Billing	9/12	10/12	9/12	12/12
2005/2006 System Billing	-	2/12	3/12	-

* Note: Prior period adjustments will be required to restate beginning fund balance(s) in accordance with GAAP for participating municipalities or school districts that have not accrued prior LRS or TRS payments, as applicable.

Prior Period Adjustments

The pension expenditure and liability clarifying guidance contained in GASB's Technical Bulletin could require many local governments and school districts to restate their beginning 2004 fiscal year fund balance(s) using a prior period adjustment. Local governments and school districts preparing their financial statements in accordance with GAAP would be required, for consistency in capturing the appropriate 12 months of retirement expenditures, to adjust beginning of year fund balance(s) to recognize the proper accrued liability or prepaid retirement disbursement that would have been attributable to the prior fiscal year. The tables above provide information for determining the amount of any accrued liability or prepaid expense under GAAP to make this one-time adjustment to the financial statements.

Sample Entries – Payment of the 2004-05 NYSLRS Retirement Bill on or by December 15, 2004

The following sample journal entries are intended to illustrate GAAP compliant accounting recognition for pension expenditures and liabilities associated with **calendar year-end units**. These sample journal entries are based on the following assumptions:

- A retirement system bill of \$1,200
- The portion of the retirement bill eligible to be financed by the issuance of bonds or financed directly with the Retirement System is \$250
- The retirement system bill is required to be paid by February 1, 2005. Local governments could have prepaid its February 1, 2005 bill on December 15, 2004

1. To record retirement payment in December 2004 for those calendar year units opting to prepay their February 1, 2005 bill:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
480	Prepaid Expenses		300	
522	Expenditures		900	
	9010.8 State Retirement System	900		
200	Cash			1,200

2. To reclassify prepaid expenses as retirement expenditures in 2005:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
522	Expenditures		300	
	9010.8 State Retirement System	300		
480	Prepaid Expenses			300

3. To record retirement payment in December 2004 for those calendar year units opting to prepay their February 1, 2005 bill and opting to issue bonds to finance the eligible portion of the bill:

- a.) To record the proceeds of bonds in a governmental fund:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
200	Cash		250	
980	Revenues			250
	5710 Proceeds of Bonds	250		

- b.) A collateral entry will be made in the General Long-Term Debt Account Group to record bonds payable:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
W129	Total Non-Current Government Liabilities		250	
W628	Bonds Payable			250

- c.) To record payment to the Retirement System in December 2004:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
480	Prepaid Expenses		300	
522	Expenditures		900	
	9010.8 State Retirement System	900		
200	Cash			1,200

4. To record retirement payment in December 2004 for those calendar year units opting to prepay their February 1, 2005 bill and opting to amortize the eligible portion of the bill directly with the Retirement System:

a.) To record payment to the Retirement System in December 2004:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
480	Prepaid Expenses		300	
522	Expenditures		900	
	9010.8 State Retirement System	900		
200	Cash			950
980	Revenues			250
	5789 Other Debt	250		

b.) A collateral entry will be made in the General Long-Term Debt Account Group to record the amount amortized with the Retirement System:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
W129	Total Non-Current Government Liabilities		250	
W637	Due to Employees' Retirement System			250

Sample Entries – Payment of the 2004-05 NYSLRS Retirement Bill on February 1, 2005

The following sample journal entries are intended to illustrate accounting recognition for pension expenditures and liabilities associated with calendar year-end units. These sample journal entries are based on the following assumptions:

- A retirement system bill of \$1,200
- The retirement system bill is required to be paid by February 1, 2005. The bill covers the municipality's pensionable salaries for the period April 1, 2004 through March 31, 2005 (9/12 of the bill pertains to the 2004 year and 3/12 of the bill pertains to the 2005 year)
- The portion of the retirement bill eligible to be financed by the issuance of bonds or financed directly with the Retirement System is \$250

5. To record retirement expenditures and corresponding liability for contribution amounts owed to the System at year-end December 31:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
522	Expenditures		900	
	9010.8 State Retirement System	900		
637	Due to Employees' Retirement System			900

6. To record payment of retirement bill on February 1st of ensuing year:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
522	Expenditures		300	
	9010.8 State Retirement System	300		
637	Due to Employees' Retirement System		900	
200	Cash			1,200

7. For municipalities opting to finance the eligible portion of their Retirement System bill with the proceeds of bonds.

a.) To record the proceeds of bonds in a governmental fund:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
200	Cash		250	
980	Revenues			250
	5710 Serial Bonds	250		

b.) A collateral entry will be made in the General Long-Term Debt Account Group to record Bonds Payable:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
W129	Total Non-Current Government Liabilities		250	
W628	Bonds Payable			250

c.) To record payment to the Retirement System in February 2005, refer to sample journal entry 6 above.

8. For municipalities opting to finance the eligible portion of their Retirement System bill directly with the Retirement System.

a.) To record payment of retirement bill on February 1st:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
522	Expenditures		300	
	9010.8 State Retirement System	300		
637	Due to Employees' Retirement System		900	
200	Cash			950
980	Revenues			250
	5789 Other Debt	250		

b.) A collateral entry will be made in the General Long-Term Debt Account Group to record amount Amortized with the Retirement System:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
W129	Total Non-Current Government			
	Liabilities		250	
W637	Due to Employees' Retirement System			250

Additional Expenditure and Liability Accounting Information

For participating employers who choose to issue bonds to help finance any or all of the “eligible” portion of pension contribution bills:

- The resources required to make principal and interest payments from governmental-type funds will be provided through the budgetary process using appropriation **accounts 9710.6 (Debt Principal – Serial Bonds) and 9710.7 (Debt Interest – Serial Bonds)**.
- Proceeds of serial bonds issued on behalf of proprietary-type funds should not be recorded as fund revenues. Instead, bond proceeds should be recorded directly as a fund liability using **account 628 – Bonds Payable**.

For participating employers who choose to amortize the “eligible” portion of their pension contribution bills directly with the Retirement System:

- The resources required from governmental-type funds to make the principal and interest payments on the amortized amount will be provided by the budgeting process using appropriation **account 9789.6 (Other Debt - Principal) and 9789.7 (Other Debt - Interest)**.
- Amounts amortized directly with the Retirement System on behalf of proprietary-type funds should not be recorded as fund revenues. Rather, the amount amortized should be recorded directly as a fund liability using **account 637 – Due to Employees' Retirement System**.

Pension Expenditure and Liability Accounting Information for School Districts

School districts do not make direct payments to the Teachers' Retirement System for their annual pension contribution. Instead, a school district's annual pension contribution owed to the Teachers' Retirement System is satisfied through deductions from State school aid payments. To illustrate, estimated pension contributions owed to the Teachers' Retirement System by a school district for contributions pertaining to the district's fiscal year ended June 30, will be satisfied as deductions from state aid in the ensuing months of September 15, October 15 and November 15.

Sample Entries – The following sample journal entries pertain to pension contribution amounts owed by school districts to the Teachers' Retirement System.

1. To record retirement expenditures and corresponding liability for contribution amounts owed to the Teachers' Retirement System at year-end June 30:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
522	Expenditures		\$ XXX	
	9020.8 Teachers' Retirement	\$ XXX		
632	Due to State Teachers' Retirement System			\$ XXX

2. To record amount withheld from State school aid representing payment to the System:

		<u>Subsidiary Account</u>	<u>Debit</u>	<u>Credit</u>
632	Due to State Teachers' Retirement System		\$ XXX	
980	Revenues			\$ XXX
	3101 State Aid, Basic Formula	\$ XXX		

Additional Information

A copy of our August 2004 bulletin entitled '*Modification of NYS Retirement Systems' Annual Payment Date and Reserve Provision for Pension Contributions*' can be obtained from our website: www.osc.state.ny.us/localgov/muni/releases/0804.htm

A copy of the December 2004 GASB Technical Bulletin No. 2004-2 '*Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*' can be obtained from their website: www.gasb.org

If you have any accounting questions, please contact the regional office serving your government. A list of our regional offices is enclosed.

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