



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

**Department of Education  
& Early Development**

FINANCE & SUPPORT SERVICES

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October 8, 2018

Dear Superintendents and Business Managers:

This letter provides an overview of solutions and a recommended direction to Alaska school districts concerning the financial statement reporting requirements for FY2018 and FY2019 on prior Defined Contribution Retirement (DCR) Employer Forfeitures. The Alaska Association of School Business Officials (ALASBO) formed an Ad Hoc Committee to research the possible solutions for recording the DCR Employer Forfeitures. The department reviewed the different approaches identified by the Ad Hoc Committee to account for the prior DCR Forfeitures that were identified in the June 18, 2018 letters to school districts from the Division of Retirement and Benefits.

GASB 68, Accounting and Financial Reporting for Pensions, provides guidance for the recognition of forfeitures, however the GASB guidance does not address what to do when the forfeitures are several years old and are of significant size as in this situation. GASB was contacted and recommended that the forfeitures be treated as a prior period adjustment and a current year reduction in pension expense/expenditures for FY2018. The American Institute for Certified Public Accountants (AICPA) provided input and a different solution on how to treat the DCR Employer Forfeitures for FY2018 and FY2019. The AICPA recommended that the forfeitures be treated as a change in estimate to be booked in FY2019, the year the forfeitures can be used, with a footnote on a subsequent event in the FY2018 financial statements.

Given the late notification from the Division of Retirement and Benefits on the DCR Employer Forfeitures, the significant difficulty in identifying prior employees with forfeitures, the fact that the prior forfeitures will be used to offset pension expense in FY2019, and for consistency in reporting across all school districts, the department is recommending the approach provided by the AICPA.

The DCR Employer Forfeitures should be treated as a change in estimate in FY2019 when the forfeiture can be used to offset contributions, with a footnote on a subsequent event in the FY2018 financial statements. The amount of the forfeiture should be recorded in the Operating Fund across all functions. The department recommends that the school district use the same percent distribution as that used for the allocation of PERS/TRS on-behalf payments.

For fiscal years after FY2019, school districts should use the guidance provided in GASB 68 for the treatment and reporting of employer forfeitures. The department anticipates that after FY2019 the amount of forfeitures should be relatively small.

Letter, DCR Employer Forfeitures

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The department thanks the ALASBO Ad Hoc Committee for the work and research they put into finding the varied solutions to recording the DCR Employer Forfeitures. The work of the Ad Hoc Committee aided the department in its recommendation on the treatment of the forfeitures.

If you have any questions please contact me and the department will assist you through the process.

Sincerely,

A handwritten signature in cursive script that reads "Elwin Blackwell". The signature is written in black ink and is positioned above the printed name.

Elwin Blackwell  
School Finance Manager

*Alaska Association of School Business Officials (ALASBO)*  
*Amy Lujan, Executive Director*  
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September 15, 2018

Alaska Department of Education and Early Development  
ATTN: Heidi Teshner, Director of Finance and Support Services  
Delivered via email

Dear Heidi,

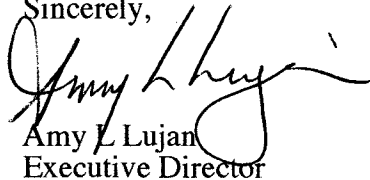
As you are aware, the Department of Administration issued letters to all school districts and other organizations covered by PERS and TRS in June 2018, regarding DCR forfeiture amounts to be credited to these organizations against payrolls processed, beginning in July 2018. These amounts had accumulated over multiple years, since the defined contribution (DCR) system was implemented.

An ALASBO Ad Hoc Committee has been gathering information about how these credits are being accounted for across school districts, and we have found considerable variability, including among the largest districts in the state. The attached memo to the ALASBO Board summarizes our research to date.

The differences will be most evident in FY19, and we believe they will impact the consistency of financial statements across districts. We have worked side-by-side with DEED to maintain consistency across numerous revisions to the Chart of Accounts (most recently the 2018 edition), and as challenges have arisen, such as determining the accounting for on-behalf payments. If significant new issues such as this one are not addressed, **the credibility of school districts and of DEED when reporting financial information to the Alaska State Legislature is impaired.**

If this issue is not addressed within the next few weeks, before completion of FY18 financial statements, it will be much more difficult to implement a consistent solution. **We are asking for guidance from the Department of Education and Early Development on accounting for DCR forfeitures.** Please let us know how we can be of further assistance.

Sincerely,



Amy L. Lujan  
Executive Director

Attachment

Cc: Alaska Commissioner of Education Michael Johnson  
Elwin Blackwell, School Finance Manager

TO: ALASBO Board of Directors

FROM: Colleen Fitzgerald, Honorary Member

DATE: September 15, 2018

SUBJECT: Accounting for DCR Forfeitures



The ALASBO Ad Hoc Committee gathered feedback from our School District members and consultants to compare approaches taken to record the DCR forfeitures. The feedback consisted of emails from members, which sometimes included forwarded emails from representatives of Alaska accounting firms. In all cases, the accounting approaches adopted were based on: 1) recommendations received from a District's auditor, or 2) research done by an individual District with concurrence by their auditor.

Although GASB 68, *Accounting and Financial Reporting for Pensions*, provides clear guidance for recognizing forfeitures, the size of the forfeitures for some Districts and the fact that the bulk of the forfeitures date back many years raised questions not covered in the GASB 68 guidance. Technical inquiries made by members or member auditors to the Governmental Accounting Standards Board (GASB) and the American Institute for Certified Public Accountants (AICPA) resulted in different recommendations for recording the forfeitures. The result will be inconsistencies among School District financial statements in both FY18 and FY19. It should also be noted that methods of allocating the forfeitures, which vary widely, may exacerbate the inconsistencies.

The committee decided that summarizing the approaches taken by the three largest Alaska School Districts plus the Sitka School District would best represent the approaches taken by most, if not all, Districts in the State. This approach will also best represent the advice/concurrence received from firms who provide auditing services to most of the School Districts in the State: Cook & Haugeberg LLC, BDO, and Altman, Rogers & Co.

1. Fairbanks North Star Borough School District (FNSBSD) / Auditors: Cook & Haugeberg LLC

The FNSBSD submitted a technical inquiry to the GASB to inquire about their recommended approach to accounting for the forfeitures. The GASB recommended booking the forfeitures in FY18 as a prior period adjustment along with a portion offset against FY18 expenditures/expense. The offsetting debit would be to prepaid expense or deposits. Because of the time and effort it would take to request individual names from the State of Alaska to research in their current and prior financial system, possibly dating back 12 years FNSBSD decided to download and summarize DCR employees' salaries from their system (last six years) across all funds and functions. Their analysis showed the largest percentage of DCR salaries resided in the general fund (TRS 97%, PERS 87%). Based on the resulting allocation of forfeitures and auditor determined materiality levels by fund, FNSBSD determined it was materially correct to book the entire forfeiture amount to the general fund. Cook & Haugeberg agreed with their assessment.

2. Anchorage School District (ASD) / Auditors: BDO

Based on discussions with their auditors, ASD is planning to record the entire amount of the forfeitures as a prepaid or other type asset on the Statement of Net Position and a reduction of pension expense on the Statement of Activities in FY18. In FY19, ASD will record the forfeitures as a credit to expenditures at the fund level as they are realized through reduced payments to the state. The forfeitures will then be removed during the conversion to the Statement of Net Position and Statement of Activities.

3. Matanuska-Susitna Borough School District (MBSD) / Auditors: BDO

Based on discussions with their auditors, MBSD had the option to record the forfeitures using the same approach ASD chose or recording the entire amount of the forfeitures in FY19 as a prepaid or other type of asset and a credit to expenditures. They chose the latter option. The forfeitures will be allocated in the general fund across all functions using the same percent distribution as that used for allocation of on-behalf payments.

4. Sitka School District (SSD) / Auditors: Altman, Rogers & Co.

Altman, Rogers received a recommendation from AICPA to treat the forfeitures like a gain contingency, so the transaction would not be accounted for until the forfeitures are allowed to be used in FY19. The AICPA also recommended treating the change as a change in estimate in FY19, since it was not known to employers and it would be impossible to track employees after they leave employment and potentially start employment with another employer who participates in the State plan. A change in estimate would be reflected in the period of change. According to the State of Alaska, that change should be accounted for when the forfeitures can be used to offset contributions (FY19).

The Altman, Rogers position is to treat this transaction as a change in estimate in FY19 when the forfeitures can be used to offset contributions, with a footnote on a subsequent event in FY18. They are suggesting recording a debit to the system generated liability and a credit to employee benefits in FY19, with a footnote explaining the change in estimate.

In their opinion, it is not a correction of an error since the State of Alaska did not provide information to each employer in the plan on a timely basis each year and employers can't be expected to track a former employees through the PERS and TRS plan.

In summary, while School Districts are taking reasonable approaches that are supported by generally accepted accounting principles they are still DIFFERENT approaches that will result in financial statements that lack comparability and consistency with regard to reporting the forfeitures in FY18 and FY19. This should be of serious concern to both ALASBO and the Alaska Department of Education and Early Development.