CALIFORNIA COMMUNITY COLLEGES
CHANCELLOR'S OFFICE
1102 Q STREET
SACRAMENTO, CA 95811-6549
(916) 445-8752
HTTP://WWW.CCCCO.EDU

Memorandum

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Fiscal Services Memo 15-06
Via E-mail Only

TO: Chief Business Officers

FROM: Mario Rodriguez, Assistant Vice Chancellor
College Finance & Facilities Planning

SUBJECT: Accounting Advisory for GASB 68 – Accounting and Financial Reporting for Pensions

This accounting advisory provides general information on the background, reporting impact, key terms, and district's responsibilities to ensure compliance with the new Governmental Accounting Standards Board (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions effective July 1, 2014.

Background

The objective of GASB 68 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. The statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. 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.

The details regarding financial statement presentation and audit procedures are still evolving as the audit community begins interpreting and applying the statement components into practice and refining their methodology. The general information that is known at this time is noted below to assist districts in complying with the new statement. Districts should work with their auditors to determine how to present this information in their financial statements.

Changes from current reporting standards

With the implementation of GASB 68, accounting is no longer equivalent to funding. Previously, the amounts reported as pension expense in the district's financial statements were equivalent to the required contributions to CalSTRS and CalPERS. Pension expense will now be the district's proportionate share of the CalSTRS and CalPERS pension liability.

Reporting Impact

GASB 68 impacts the accounting and reporting (accrual basis) of pension expense and net pension liability by reflecting the amounts on the entity-wide financial statements that are presented in the district's annual audit report. Specifically, the district's Statement of Net Position (balance sheet) will now reflect their proportionate share of the net pension liability.

Additional footnotes and required supplementary schedules will also be added to the audit report. It is important to note that GASB 68 does not require changes to governmental fund accounting and financial reporting on the CCFS-311 (modified accrual basis). Only amounts expended from available resources, such as monthly CalPERS and CalSTRS contributions, should be recognized as pension expenditures for governmental fund accounting.

Key Terms

1. Net Pension Liability (NPL) represents the new statement's approach to recording the pension liability for a closer measure of unfunded actuarial liability.

Net Pension Liability	=	Present value of projected benefit payments for current active and inactive employees attributable to past periods of services	-	Amount of the pension plan's fiduciary net position

2. Cost Sharing Multiple-Employer Plan is a defined benefit plan that provides pensions to employees of more than one employer. These cost sharing employers are those who have employees that are provided pensions through a multiple-employer plan that pools their assets. The assets can be used to pay the benefits of any employee of any employer in the plan. CalPERS and CalSTRS are examples of cost sharing multiple employer plans.

3. Proportionate share are calculations that apply for cost sharing multiple-employer plans to determine the amount of the total NPL, deferred inflows and deferred outflows of resources and pension expense that should be recognized by each employer

District Responsibilities

Each district is responsible for obtaining their pension related financial information directly from the benefit plan provider for their 2014-15 fiscal year annual audit and financial statements. The two major statewide defined benefit plans, CalPERS and CalSTRS, will deliver or have delivered information to employer districts. In January 2015, CalSTRS issued district employers their respective schedule of proportionate share, supporting schedules and a special audit opinion. CalPERS will provide employer districts with similar information as CalSTRS in the coming months for a $350 fee. Districts with CalPERS Safety plans will have an additional fee for CalPERS Safety plan information. Districts are encouraged to work with their contracted auditors to further understand the requirements and impact to their audit and financial statements to ensure compliance with this new reporting requirement.

Resources

CalSTRS: https://www.calpers.ca.gov/index.jsp?bc=/employer/actuarial-gasb/home.xml

CalPERS: http://www.calstrs.com/gasb-accounting-changes

GASB: http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163026371

League of California Cities: www.cacities.org/GASB68-ImplementationGuide