

## **GASB 68 Educational Materials for Employers**

In order to prepare journal entries for FY 2014-15 financial reporting required by GASB Statement No. 68 (GASB 68), employers need information from the Statement of Changes in Fiduciary Net Position (SCFNP) and Schedules I, IX, and X in CalSTRS FY 2013-14 Comprehensive Annual Financial Report (CAFR).

Schedule IX is the Schedule of Proportionate Share of Contributions for Employers and Nonemployer Contributing Entity. It provides the amount of contributions for each participating employer and those contributions as a percentage of employer and state contributions to the State Teachers' Retirement Plan (STRP) for FY 2013-14. The contributions used to calculate proportionate share in Schedule IX appropriately exclude all employer contributions for separately financed liabilities of individual employers, such as benefit enhancements.

Schedule X is the Schedule of Aggregate Pension Plan Amounts for Employers and Nonemployer Contributing Entity. It provides aggregate amounts for the STRP that can assist employers in calculating their portion of the Net Pension Liability, certain deferred inflows and outflows of resources, and components of pension expense. It also contains a footnote with the average remaining service life of plan members, which can be used to calculate the reduction of some deferred inflows and outflows of resources for the measurement period.

However, because Schedule X shows amounts calculated at the plan level for the STRP, it includes the impact of current year contributions; it does not include deferred inflows and outflows of resources that are specific to each employer; and it is not reflective of adjustments to pension revenue and expense associated with on behalf payments made by the State of California (non-employer contributing entity) for each employer. The deferred inflows and outflows not presented include deferred outflows for contributions subsequent to the measurement date and deferred inflows or outflows of resources for changes in the employer's proportionate share of contributions.

As Schedule IX presents contributions for the current year, if an employer uses Schedule IX for their GASB 68 calculations there will be no deferred inflow or outflow of resources for the difference between employer contributions used for the proportionate share calculation and employer contributions during the measurement period. Employers may wish to create separate general ledger accounts for each type of deferred inflow and outflow of resources to facilitate managing them.

Below is an illustration of calculations and journal entries for an employer under a specific set of circumstances using information provided by CalSTRS. The information from CalSTRS' CAFR is provided in the SCFNP on page 43, Schedule IX beginning on page 95, and Schedule X on page 124. Note that amounts in the SCFNP and Schedules IX and X are shown to different levels of precision (whole dollars, rounded to the nearest thousand, or rounded to the nearest million), while most amounts presented below are all rounded to the nearest million.

Although the information contained herein may help employers contributing to the State Teachers' Retirement Plan (STRP) with the preparation of journal entries for FY 2014-15 financial reporting required by GASB Statement No 68 (GASB 68), it has no authoritative status. CalSTRS is not rendering legal or accounting advice with this publication but rather is providing additional instruction as to how an employer may choose to use the information published by CalSTRS in implementing GASB 68. It is

recommended that the users of this memo refer to GASB 68, the Guide to Implementation of GASB Statement 68, their accounting policies, their external auditor, and other experts as appropriate to assist with their implementation. .

**Mock Calculations**

- a. Employer reporting year is FY 2014-15 using a measurement date of 6/30/2014. The measurement period is FY 2013-14.
- b. Employer contributions used for the proportionate share calculation from Schedule IX are \$684,786 and their proportionate share of total CalSTRS-calculated employer contributions in Schedule IX is 0.019%. These examples assume that the portion of the nonemployer contributing entity’s proportionate share associated to each employer is the same as the employer’s proportionate share of contributions. This may not be consistent with each employer’s circumstances or accounting policies.

Employer contributions in the reporting year (FY 2014-15) and subsequent to the measurement date (6/30/2014) are \$700,000. This information is from the employer’s accounting records.

- c. NPL for beginning of measurement period (7/1/2013)

\$237,786,000,000	Beginning Total Pension Liability from Schedule I
<u>(166,348,000,000)</u>	Beginning net position from SCFNP
<u>\$71,438,000,000</u>	Beginning NPL for FY 2013-14

- d. Employer proportionate share of NPL for beginning of measurement period (FY 2013-14)

\$71,438,000,000	Beginning NPL for FY 2013-14 from (c)
<u>    x    0.019%</u>	Employer FY 2013-14 proportionate share from (b)
<u>\$    13,573,220</u>	Employer proportionate share of NPL for beginning of measurement period

In this example the employer is using the proportionate share for FY 2013-14 because the proportionate share from FY 2012-13 is not available. The Employer FY 2013-14 proportionate share from (b) has not been adjusted for the portion of the nonemployer contributing entity’s proportionate share of the NPL associated with the employer.

- e. NPL for measurement date (6-30-2014)

\$58,437,000,000	Ending NPL for FY 2013-14 from Note 3 or Schedule X
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f. Component\* of pension expense

(\$13,001,000,000)	Change in NPL from Schedule X
17,987,000,000	Difference between projected and actual earnings on plan investments from Schedule X
3,656,000,000	Total Employer and state contributions from Schedule IX
<u>(3,597,000,000)</u>	Current year reduction of deferred inflow for differences between projected and actual earnings on plan investments from Schedule X
<u>\$5,045,000,000</u>	Component* of pension expense

\*Individual employers may need to adjust this amount for deferred inflows/outflows of resources for changes in proportionate share, deferred inflows/outflows of resources for the difference between actual contributions and contributions used in the proportionate share calculation, and contributions by the state on behalf of employers.

g. Employer deferred inflow for differences between projected and actual earnings on plan investments

\$17,987,000,000	Deferred inflow for differences between projected and actual earnings on plan investments from Schedule X
<u>(3,597,000,000)</u>	Reduction of deferred inflow for differences between projected and actual earnings on plan investments from Schedule X
<u>\$14,390,000,000</u>	Net deferred inflow for differences between projected and actual earnings on plan investments from Schedule X

There were no deferred outflows of resources at the plan level for the measurement period (FY 2013-14); however, there may be in future years. Deferred inflows and outflows of resources for differences between projected and actual earnings on plan investments should be netted together. Deferred inflows and outflows of resources for all other items should be kept separate. Deferred inflows and outflows for differences between projected and actual earnings on plan investments are reduced over five years, while almost all other deferred inflows are reduced over the average remaining service life of plan members, which is disclosed in a footnote to Schedule X. Deferred outflows for contributions subsequent to the measurement date are recorded in the financial reporting year and reduced in the following year. Unlike other deferred inflows and outflows, they do not affect pension expense, but instead reduce the NPL. Note that, while similar to amortization, deferred inflows and outflows of resources are technically 'reduced,' not amortized.

## Mock Entries

- 1) To record beginning net pension liability as of 7/1/2014 and deferred outflow for employer contributions during the measurement period (FY 2013-14)

Dr. Net Position	\$12,878,580*
Dr. Deferred Outflow of Resources	\$ 694,640** calculated from information in (b) & (f)
Cr. Net Pension Liability	\$13,573,220 (d)

This is a one-time entry for the transition year.

\*Debit to net position if difference between credit to NPL and debit to deferred outflow of resources.

\*\*Individual employers may need to adjust this amount for deferred inflows/outflows of resources for changes in proportionate share, deferred inflows/outflows of resources for the difference between actual contributions and contributions used in the proportionate share calculation, and contributions by the state on behalf of employers.

- 2) To record employer contributions subsequent to the measurement date

Dr. Deferred Outflow of Resources	\$700,000 current year contributions in (b)
Cr. Cash	\$700,000

Alternately, an employer may initially record their cash contributions as pension expense/expenditure and reclassify that expense/expenditure to a deferred outflow at year-end. This entry should exclude contributions for separately financed liabilities, such as benefit enhancements. If the employer is using their contributions in Schedule IX for their proportionate share calculation, the reduction of this deferred outflow in FY 2015-16 should agree with the accrual-based CalSTRS-calculated employer contributions in Schedule IX in CalSTRS financial statements for the employer's reporting year (FY 2014-15).

- 3) To record the reduction of the deferred outflow in entry #1 at year end

Dr. Net Pension Liability	\$694,640* calculated from information in (b) and (f)
Cr. Deferred Outflow of Resources	\$694,640*

\*Individual employers may need to adjust this amount for deferred inflows/outflows of resources for changes in proportionate share, deferred inflows/outflows of resources for the difference between actual contributions and contributions used in the proportionate share calculation, and contributions by the state on behalf of employers.

