



State of New Jersey

DEPARTMENT OF EDUCATION

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November 13, 2015

TO: Chief School Administrators
Charter School Lead Persons
Renaissance School Project Lead Persons
School Business Administrators/Board Secretaries
Public School Accountants

FROM: Kevin Dehmer, Executive Director
Office of School Facilities and Finance

SUBJECT: Implementation of the GASB Statement No. 68 Pension Reporting Standard for the 2015 Fiscal Year

The Governmental Accounting Standards Board (GASB) is an independent, non-profit organization that establishes financial accounting and reporting standards for state and local governments, including school districts, charter schools, and renaissance school projects. New GASB *Statement No. 68, Accounting and Financial Reporting for Pensions* has been issued for current implementation by school employers participating in public pension plans. This notice is being sent in connection with the application of GASB Statement No. 68 with respect to the Public Employees Retirement System (PERS) and the Teacher's Pension and Annuity Fund (TPAF; PERS and TPAF, collectively, the Pension Systems). Of utmost importance, the State's compliance with GASB Statement No. 68 does not result in a change with respect to the statutorily determined calculation of the Pension System's assets, liabilities, and contribution requirements for any state and local employer, including schools. Regarding the reporting of the Pension System's amounts in the participating employer's financial statements and footnote disclosures, GASB explains that, "While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed."

First effective for the State fiscal year ending June 30, 2015, GASB Statement No. 68 has implementation ramifications for financial statement preparers and users. Under GASB Statement No. 68, individual employers must report a proportionate share of the Net Pension Liability, deferred inflows and outflows, and pension expense in their financial statements. Previously, employers only reported the annual contributions they made, or the State made on behalf of the employer, to the Pension Systems. Those responsible for the preparation or audit of New Jersey school district, charter school, and renaissance school project financial statements are encouraged to review the guidance presented on pages II-10.11 through II-10.21 of *Financial Accounting for New Jersey School Districts, Charter Schools, and Renaissance School Projects - The Audit Program 2014-15* issued by the Office of School Finance in July 2015. The following link provides access to the Commissioner's Broadcast and an imbedded link to the document: <http://education.state.nj.us/broadcasts/2015/JUL/14/13864/Audit%20Broadcast.pdf>

GASB Statement No. 68 Reports

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, engaged pension plan actuaries for the purpose of developing the numbers necessary for GASB Statement No. 68 compliance. The numbers for TPAF and PERS have been developed by those plan actuaries and independently audited. Audit reports containing the opinion of the plan's independent auditor, the audited numbers, and accompanying notes and disclosures for each plan have been posted on the Division of Pensions and Benefits website at: <http://www.nj.gov/treasury/pensions/gasb-68-notice.shtml>. GASB Statement No. 68 provided the actuarial methodologies used in calculating amounts for each participating school to disclose or incorporate into its financial statements and schedules; including for PERS the pooling of both State and local employer pension plan assets and liabilities. Consequently, the aggregate of the *local* employer net pension liability for PERS will be higher than if disaggregation had been permitted. However, although the new standard changes the way pension plans report financial information for accounting purposes, that standard doesn't change the contribution requirements for the Pension Plans, which are defined by State statute.

Audit Timeline

Each district, charter school, and renaissance school project is encouraged to file their annual audit report in accordance with the statutory deadline of December 7, 2015. As the information required for compliance with GASB Statement No. 68 was released later than originally anticipated, be advised that submission of school audit reports after the statutory deadline but **on or before December 21, 2015** will not result in any adverse findings by the Department. This additional flexibility should allow for all schools and auditors to successfully complete their work, inclusive of the reporting standards of GASB Statement No. 68. We encourage districts and auditors to work collaboratively towards this goal to ensure a timely and complete submission. Audit and audit summary data (AUDSUM) submitted after December 21st, however, may result in Departmental findings for late submission. Timely audit report and AUDSUM submission is necessary for preparation of the 2016-17 school district budget. Schools are advised to communicate directly with their county office if it is believed the Department might be able to assist with meeting the December 21st date for submission of the audit report and AUDSUM.

School Financial Reporting Under GASB Statement No. 68

The State of New Jersey, Department of the Treasury has provided the information necessary for schools to achieve compliance with the new fiscal standard. The State of New Jersey Department of Education has provided guidance for financial statement compliance and independent auditor consideration of the new standard. Please be aware that noncompliance with the financial reporting and disclosure requirements of GASB Statement No. 68 is a serious matter and will likely result in the issuance of a modified audit opinion on the school's financial statements. A modified opinion on a school's financial statements may result in departmental actions pursuant to existing State statutes and regulations. Moreover, adhering to GASB Statement No. 68 reporting standards is an important consideration for bond rating agencies, and for meeting disclosure requirements for bonds the school may have already issued.

It is important to keep in mind that this reporting requirement will not change the amount of funds schools must budget for pension payments under existing law. The New Jersey Department of Treasury has communicated this to rating agencies. They have given no indication that GASB 68 disclosures will generally result in credit downgrades.

Further Assistance

Questions regarding GASB Statement No. 68 and compliance with the new standard by New Jersey school districts, charter schools, or renaissance school projects may be submitted by e-mail to doecafr@doe.state.nj.us. Additionally, the Department has posted a GASB Statement No. 68 Q&A on our website that addresses common questions regarding implementation for New Jersey schools. This will be updated regularly, so please refer to the following link if questions arise as you complete your work: <http://www.nj.gov/education/finance/fp/audit/gasb68faq.shtml>

KD/MM/pl:

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