Background

The Governmental Accounting Standards Board (GASB) is an independent, non-profit organization that establishes standards of financial accounting and reporting for state and local governments including community college districts. In 2004 GASB issued Accounting Standards 43 and 45 which require community college districts on a phased schedule to treat their post-employment benefit obligations on an accrual basis. This means that the District will be required to book the liability as an expense directly to its financial statements. Currently all that is required is for the District to disclose in footnotes to its financial statements the existence of retiree (post-employment) health benefits. See note to District’s last audit report for period ending June 30, 2006 on page 36.

Districts, such as Ohlone, with annual revenues between $10 million and $100 million in 1998-99 must comply with the new standards by the 2008-09 fiscal year. To comply with the standards, Ohlone College must calculate an “annual required contribution” (ARC). The ARC consists of two components: a normal cost (the portion of the present value of total projected benefits assigned to the current year by the actuarial cost method used by the employer) plus an amount necessary to amortize the total unfunded actuarial accrued liability for its post-employment obligations. In addition, GASB requires districts to recognize an expense in the amount of the “annual post-employment cost”. The cumulative difference between the amounts expensed and the amounts contributed to a plan creates a net post-employment obligation, which must be reported as a general long-term liability. This amount does not have to be recognized immediately, but must be disclosed in footnotes to the District’s official financial statements.

In order for the District to get credit for its contributions to its post-employment benefit plan, the contributions must be irrevocably transferred to a trust that is dedicated to the payment of benefits arising from the terms of the plan and is protected from potential claims by the District’s creditors. Although the District has been prudent and for the past
several years has set aside funds to address its unfunded future retiree benefit liability, these funds do not meet the current GASB 43/45 regulations because they are not deposited into an irrevocable trust. The District projects that these funds will amount to $528,000 by the end of this fiscal year.

A first step in becoming compliant with the new GASB requirements is to get a current actuarial study prepared. Staff contracted with Total Compensation Systems. This study was completed in February and is attached for the Board’s review.

The Board will note in the study that if the District had built the current year’s budget based on what its Actuarially Required Contribution (ARC) should be, it would have set aside $531,184 which is $392,784 more than what was actually budgeted. For the 2007-08 fiscal year to get into compliance, the District must increase its contributions. The Board will note that the current study quantifies the accrued liability as $4,124,684 which is approximately $2.3 million higher than the liability computed in the actuarial study completed in 2003.

To assist college districts in getting into compliance with GASB 43/45, the Community College League has established a Retiree Health Benefit Program JPA. This JPA can assist Districts in the creation of the required irrevocable trust for accumulating retiree benefit funds and in participating in an investment program suited to each district’s specific risk preferences. Staff will share information about the League JPA program with the Board Audit, Finance, and Facilities Sub Committee at the next meeting. If the sub committee believes the JPA program could benefit the District, staff will bring a resolution to the Board in May authorizing the District to join the JPA.

Mr. Geoffrey Kischuk of Total Compensation Systems will be present at the Board meeting to explain the actuarial study and its implications for the District in getting into compliance with GASB 43/45.