

October 11, 2016

TO THE ADMINISTRATOR ADDRESSED

Subject: Clarification to Governmental Accounting Standards Board (GASB) Statement 68 disclosures and row addition to the AUDIT Application data feed.

During the review of the fiscal year 2015 annual financial compliance report (AFR), we determined that additional clarification was needed for some disclosures required by GASB Statement 68 due to the number of inconsistencies we found in the AFR and data submitted through Schedule L-1, Required Responses to Selected School FIRST Indicators. Below are the clarifications to the GASB Statement 68 disclosures in the AFR including information submitted on Schedule L-1. In addition, information is provided regarding a new row added to the data feed Schedule A-1 (Statement of Net Position) to assist in the collection of the GASB 68 information.

GASB Statement 68 Disclosures

Common issues found include:

- Reporting of contribution amounts for member (employee), non-employer contributing entity (state), and employer (district) for the previous reporting period. Contribution amounts per GASB 68, paragraph 76, should be contributions for the reporting period of the current audit report. The member and the employer contributions are based on the districts' fiscal year and the non-employer is based on the state's plan year.
- Not reporting the Contributions Paid to Teacher Retirement System (TRS) Subsequent to the Measurement Date in the notes to the financial statements. This resulted in the total of Deferred Outflows of Resources related to TRS disclosed in the notes to the financial statements being inconsistent with the Statement of Net Position. Please include in your note disclosure the cumulative amounts and include the as yet unamortized deferred resource outflows and inflows from the measurement periods 2014 and 2015. The resulting numbers in the note should tie out with the amounts reported on Exhibit A-1.
- The reporting of the GASB 68, paragraph 81, required supplementary information, 10-year schedule information was not presented at all or was presented for the incorrect year.
 - The 10-year schedule information required by subparagraph (a) should be amounts presented as of the plan's fiscal year end, August 31 of the prior year.
 - The 10-year schedule information required by subparagraph (b) should be amounts presented as of the district's fiscal year end of the current audit report.

Note: per GASB 68, paragraph 138, until a 10-year trend is compiled, information should be presented for those years for which information is available.

- Reporting the same amount of Non-Employer Contributing Entity (NECE) TRS on-behalf expenses at both the fund level and the government-wide level. The amount recorded at the fund level NECE TRS contributions is based on membership totals, and the amount that is recorded at the government-wide level is based on a state allocation which is different. Per GASB 68, paragraphs 94 and 95, the on-behalf expenditures recorded on the fund level based on GASB 24 are required but need to be reversed when making the conversion to government-wide financial statements. TRS care and Medicaid part D will not be reversed out of the fund level statements only the retirement on-behalf portion. A formula you may use to help calculate the on-behalf retirement portion is:
 - TRS covered payroll multiplied by 6.8%
 - Less: federal grant contributions by the district
 - Less: statutory minimum contributions by the district
 - Less: new member payment contributions by the district

The on-behalf expenses, column 3 from the TRS GASB 68 *Schedule of On-Behalf Payments Made by the Non-Employer Contributing Entity* needs to be recorded for government-wide financial statements.

Clarifications to Schedule L-1, Required Responses to Selected School FIRST Indicators

Below are select questions from Schedule L-1, Required Responses to Selected School FIRST Indicators, in which the majority of the issues were found.

- SF10 (*Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end*): The most frequent issue found was that the total amount of accumulated accretion on Capital Appreciation Bonds (CABs) was not consistent with the total amount reported in the notes to the financial statements or was not reported at all.
- SF11 (*Net Pension Assets (1920) at fiscal year-end*): The most frequent issue found was that the amount of Net Pension Assets was not consistent with amount reported in the notes to the financial statements. For most schools, the amount of Net Pension Assets should be zero unless the school had a supplemental pension plan in addition to the TRS. Do not enter or include the amount of Deferred Outflow of Resources Related to TRS for question SF11.
- SF13 (*Pension Expense (6147) at fiscal year-end.*): The most frequent issue found was that the pension expense amounts reported in Exhibit L-1 appeared to have included the entire state pension expense or the combined state and district pension expense. Pension Expense (6147) should only include:

- pension expense from the TRS GASB 68 *Schedule of On-Behalf Payments Made by the Non-Employer Contributing Entity*,
- *the changes in the deferred inflows and deferred outflows*,
- *amortization expense*,
- *and the difference in pension expense from GASB24 and pension expense for GASB 68*

Exhibit L-1 should include only the district pension expense in question SF13.

In addition, the pension expense reported should include any amortized items (differences between expected and actual expense) which are not provided in TRS schedules.

Additions to the data feed submission for Schedule A-1, Statement of Net Position

The Net Pension Liabilities amount will be required to be reported under the new data feed row 2540 on Schedule A-1, Statement of Net Position. The addition of row 2540 on Schedule A-1, Statement of Net Position, should ensure consistent reporting of the Net Pension Liabilities amount.

Ensure Consistent Reporting of AFR in the PDF and the data feed

The following is a general comment concerning verification of the consistency between the schedules in the PDF copy of the AFR and the data feed. Before finalizing the data feed submission, school districts must verify that **all** data feed schedules contain the same information as the PDF copy of the AFR. Needed corrections must be made before the data feed submission is finalized.

In conclusion:

- Provide complete and consistent GASB 68 disclosures.
- Schedule L-1 Required Responses to Selected School FIRST Indicators should be complete and consistent when submitted electronically as both a PDF and data feed.
- Report Net Pension Liabilities on schedule A-1 in new data feed row 2540.
- Verify consistent reporting of Annual Financial Compliance Report in the PDF and the data feed and make any needed corrections before finalizing data feed.

Should you have questions please contact the Division of Financial Compliance at (512) 463-9095 or schoolaudits@tea.texas.gov

Sincerely,

David Marx

Director, Division of Financial Compliance