GASB 68 PLAYBOOK 2.0

Your Play-By-Play Guide

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Texas County & District Retirement System ★ 800-651-3848 ★ TCDRS.org/employers

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KICKOFF

OVERVIEW

The Governmental Accounting Standards Board (GASB) requirements affect all TCDRS participating employers. Your financial statements will have additional line items, schedules and note disclosures. All the information you need to comply with these standards will be included in your GASB 68 Report located on the "Plan Documents" page when you sign in at TCDRS.org/employers.

This guide is intended to help you take your GASB 68 Report and apply it to your financial reporting. If you have any questions, please call your TCDRS Employer Services Representative at 800-651-3848.

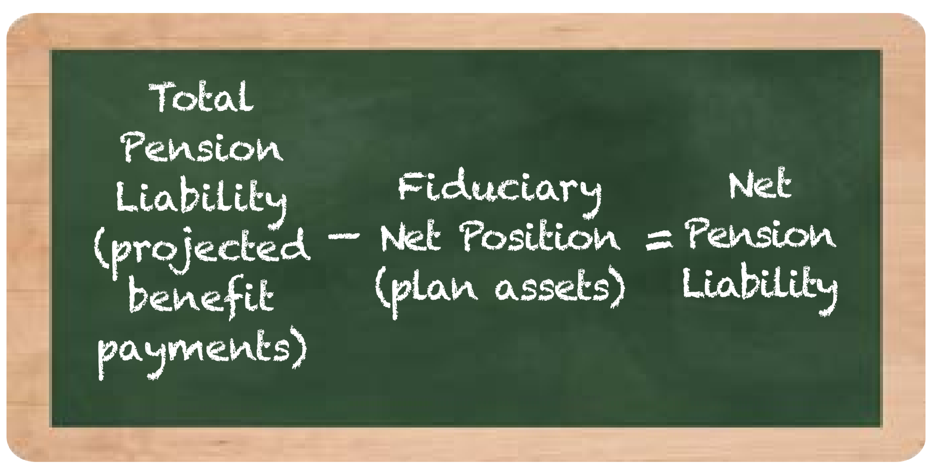
KEY PLAYS

YOUR BALANCE SHEET

There are two items you'll need to include on your balance sheet: (1) Reporting your Net Pension Liability (NPL) calculated per GASB's rules; and (2) Reporting deferred inflows and outflows.

YOUR NET PENSION LIABILITY

NPL doesn't have to be its own line item. This determination will be made by you and your auditor, and will depend on the size of the liability relative to other items on your balance sheet. NPL is a long-term liability and not immediately payable. In addition, it will be calculated differently from your Unfunded Actuarial Accrued Liability, which is computed for funding purposes.



Net Pension Liability (NPL) is the difference between Total Pension Liability (TPL) and the Fiduciary Net Position (FNP) as of the measurement date. For the TCDRS plan, the measurement date is always Dec. 31 of each year.

Please note that instead of NPL, you could have a Net Pension Asset (NPA) on your balance sheet, if your FNP exceeds your TPL as of the measurement date. If you have a NPA, you'll report this as a noncurrent asset.

Here's an example chart of how this information will appear in your GASB 68 Report.

NET PENSION LIABILITY	Dec. 31, 20X0	Dec. 31, 20X1
Total pension liability	$939,603	$1,132,313
Fiduciary net position	867,052	1,043,803
Net pension liability	**$72,551**	**$88,510**
Fiduciary net position as a % of total pension liability	92.28%	92.18%
Pensionable covered payroll	$876,698	$925,627
Net pension liability as a % of pensionable covered payroll	8.28%	9.56%

ESTABLISHING YOUR NPL

For GASB 68 reporting requirements, you will need to record an adjustment to arrive at the most recent NPL (or NPA), and that adjustment will also encompass pension expense and deferred inflows and outflows.

FOR THE ROOKIES

ESTABLISHING YOUR INITIAL NPL AND ENDING NPL

If you are a new participating employer, the first year of implementation you will need to record an initial NPL on your balance sheet. This is important because you will need it to compute your pension expense, which is based on the change of the NPL from year to year, adjusted for changes in deferred inflows and deferred outflows. You can find the initial NPL in your GASB 68 Report.

After your initial NPL is established, you'll need to record your ending NPL as of the measurement date included on your GASB 68 Report.

RECORDING DEFERRED INFLOWS AND DEFERRED OUTFLOWS OF RESOURCES

Deferred Inflows of Resources and Deferred Outflows of Resources are the amounts that are permitted to be recognized as part of pension expense over a period of years. These amounts refer to items that are not yet recognized in current period pension expense and include:

- Differences between expected and actual plan experience
- Changes in actuarial assumptions
- Differences between projected and actual investment earnings
- Employer contributions made subsequent to the measurement date through your fiscal year end

Deferred outflows are reported on the balance sheet below assets, while deferred inflows are reported below liabilities. Differences in plan experience and changes in assumptions will be amortized over the remaining service lives of current and former employees, and retirees. The differences between expected and actual investment earnings will be amortized over a five-year period.

Deferred inflows and outflows will need to be tracked each year. The Schedule of Deferred Inflows and Outflows located in your GASB 68 Report will help you track these items and will look like this:

SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

	Original Amount	Date Established	Original Recognition Period	Amount Recognized in 12/31/20X1 Expense	Balance of Deferred Inflows 12/31/20X1	Balance of Deferred Outflows 12/31/20X1
Investment (gains) or losses	$ 17,278	12/31/20X1	5.0	$ 3,456	$ 0	$ 13,822
Economic/ demographic (gains) or losses	24,861	12/31/20X1	5.0	4,972	0	19,889
Assumption changes or inputs	0	12/31/20X1	0.0	0	0	0
Employer contributions made subsequent to measurement date	----------------------------Employer Determined----------------------------					

The employer must compute the employer contributions after the measurement date through the employer's fiscal year end to arrive at the ending deferred outflow amount.

All calculations in this playbook assume that $75,000 in employer contributions were made subsequent to the measurement date.

As of Dec. 31, 20X1, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$0	$19,889
Changes of assumptions	0	0
Net difference between projected and actual earnings	0	13,822
Contributions made subsequent to measurement date[1]	N/A	75,000

Amounts currently reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year ended Dec. 31:	
20X2	$8,428
20X3	8,428
20X4	8,428
20X5	8,428
20X6	0
Thereafter[2]	0

[1] If eligible employer contributions were made subsequent to the measurement date through the employer's fiscal year end, the employer should reflect these contributions, adjusted as outlined in Appendix C of the GASB 68 Report.

[2] Total remaining balance to be recognized in future years, if any. Note that additional future deferred inflows and outflows of resources may impact these numbers.

Contributions made after the measurement date will need to be computed by each employer and will not be included in the GASB 68 Report. However, Appendix D – Contributions Made Subsequent to Measurement Date – of that report provides guidance on determining that amount to be recorded as a deferred outflow.

Contributions include employer contributions, but not member deposits or Group Term Life premiums.

It is important to remember that for the differences and changes mentioned above, it is possible to have gains in one category and losses in another in the same year. The results will impact whether you have a deferred inflow or outflow.

YOUR INCOME STATEMENT

Pension expense is the change in NPL from year to year, adjusted for the changes in deferred inflows and deferred outflows.

Your pension expense will be included in your GASB 68 Report and will look like this example:

Please note that instead of pension expense, you could have pension income (when this occurs, the total at the bottom of the pension expense table below will be in parentheses).

PENSION EXPENSE / (INCOME)

	January 1, 20X1 to December 31, 20X1
Service cost	$ 99,361
Interest on total pension liability	79,612
Effect of plan changes	0
Administrative expenses	740
Member contributions	(56,287)
Expected investment return net of investment expenses	(75,672)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	4,972
Recognition of assumption changes or inputs	0
Recognition of investment gains or losses	3,456
Other	(38)
Pension Expense / (Income)	**$ 56,144**

COACH'S NOTES

FINANCIAL STATEMENT EXAMPLE

Now let's take a look at where each piece of information in your GASB 68 Report ends up on your financial statement.

BLUEBONNET COUNTY
Statement of Net Position as of Dec. 31, 20X1

	GASB presentation (combined adjustments)		
	Before	Adjustments	After
ASSETS			
Cash and cash equivalents	$ 227,200,000		$ 227,200,000
Total Assets	227,200,000		227,200,000
DEFERRED OUTFLOWS OF RESOURCES			
Differences between expected and actual experience		13,822	13,822
Difference between projected and actual earnings on pension plan		19,889	19,889
Contributions subsequent to the measurement date		75,000	75,000
Total Deferred Outflows of Resources		108,711	108,711
LIABILITIES			
Accounts payable and accrued liabilities	143,500,000		143,500,000
Long-term liabilities due more than one year	25,100,000	88,510	25,188,510
Total Liabilities	168,600,000	88,510	168,688,510
DEFERRED INFLOWS OF RESOURCES			
Property taxes	6,100,000		6,100,000
Total Deferred Inflows of Resources	6,100,000		6,100,000
NET POSITION			
Net investment in capital assets	5,200,000		5,200,000
Restricted	92,500,000		92,500,000
Unrestricted	(45,200,000)	20,201 [a]	(45,179,799)
Net Position	$ 52,500,000	$ 20,201	$ 52,520,201

[a] Amount represents the adjustment to pension expense ($18,856; see [b] below) plus an adjustment of $1,345 derived from the Changes In Net Pension Liability / (Asset). The $1,345 adjustment is the impact of the deferred outflows for contributions made after the measurement date ($73,897) minus the beginning net pension liability ($72,551), rounded due to cents.

BLUEBONNET COUNTY
Statement of Activities for the year ended Dec. 31, 20X1

	GASB presentation (combined adjustments)		
	Before	Adjustments	After
General revenues: Real estate tax, miscellaneous	$ 186,200,000		$ 186,200,000
Less expenses for governmental activities, excluding pension expense	(183,525,000)		(183,525,000)
Pension expense	(75,000)	18,856 [b]	(56,144)
Total governmental activities' expenses	(183,600,000)	18,856	(183,581,144)
Change in Net Position	2,600,000	18,856	2,618,856
Net Position — beginning of year	49,900,000		49,900,000
Net Position — end of year	$ 52,500,000	$ 18,856	$ 52,518,856

[b] Amount represents the pension expense journal entry amounts ($75,000 credit for the post-measurement date contributions partially offset by the $56,144 debit per the GASB 68 report).

SCHEDULE OF DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

	Original Amount	Date Established	Original Recognition Period	Amount Recognized in 12/31/20X1 Expense	Balance of Deferred Inflows 12/31/20X1	Balance of Deferred Outflows 12/31/20X1
Investment (gains) or losses	$ 17,278	12/31/20X1	5.0	$ 3,456	$ 0	$ 13,822
Economic/demographic (gains) or losses	24,861	12/31/20X1	5.0	4,972	0	19,889
Assumption changes or inputs	0	12/31/20X1	0.0	0	0	0
Employer contributions made subsequent to measurement date	----------------------------Employer Determined---------------------------- The employer must compute the employer contributions after the measurement date through the employer's fiscal year end to arrive at the ending deferred outflow amount. This example assumes $75,000.					

CHANGES IN NET PENSION LIABILITY / (ASSET)

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) – (b)
Balances as of December 31, 20X0	$ 939,603	$ 867,052	$ 72,551
Changes for the year:			
Service cost	99,361		99,361
Interest on total pension liability	79,612		79,612
Effect of plan changes	0		0
Effect of economic/demographic gains or losses	24,861		24,861
Effect of assumptions changes or inputs	0		0
Refund of contributions	(10,832)	(10,832)	0
Benefit payments	(292)	(292)	0
Administrative expenses		(740)	740
Member contributions		56,287	(56,287)
Net investment income		58,393	(58,393)
Employer contributions		73,897	(73,897)
Other	0	38	(38)
Balances as of December 31, 20X1	$ 1,132,313	$ 1,043,803	$ 88,510

PENSION EXPENSE / (INCOME)

	January 1, 20X1 to December 31, 20X1
Service cost	$ 99,361
Interest on total pension liability	79,612
Effect of plan changes	0
Administrative expenses	740
Member contributions	(56,287)
Expected investment return net of investment expenses	(75,672)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	4,972
Recognition of assumption changes or inputs	0
Recognition of investment gains or losses	3,456
Other	(38)
Pension Expense / (Income)	$ 56,144

JOURNAL ENTRIES FOR BEGINNING OF YEAR BALANCES* AND CURRENT YEAR ACTIVITY		
	Debit	**Credit**
Beginning balances setup*:		
Unrestricted net position [beginning NPL, net of contributions after the initial measurement date]		$ 1,345
Deferred outflows — contributions [made after the initial measurement date]	73,897	
Net pension liability [beginning NPL]		72,551
Current year activity:		
Deferred outflows — contributions [reverse beginning balance]		73,897
New deferrals (before any recognition in pension expense):		
Deferred outflows — differences in experience [spread over 5 yrs]	24,861	
Deferred outflows — difference in investment earnings [spread over 5 yrs]	17,278	
Recognition (amortization) of deferrals in pension expense:		
Deferred outflows — differences in experience [1/5 of deferred amount]		4,972
Deferred outflows — difference in investment earnings [1/5 of deferred amount]		3,456
Deferred outflows — contributions [after most recent measurement date]	75,000	
Pension expense		75,000
Pension expense	56,144	
Net pension liability (net change from beginning NPL)**		15,959
Grand Total	**$ 247,180**	**$ 247,180**

* The beginning of year balances' setup part of the above example is only necessary in the year your employer adopts GASB 68. For years following the year of adoption, the part of the entry starting with the current year activity heading is applicable.

**Ending NPL $88,510 minus Beginning NPL $72,551 = net change of $15,959.

PLAY ANALYSIS

NOTE DISCLOSURES AND REQUIRED SUPPLEMENTARY INFORMATION

Your GASB 68 Report will also include note disclosures and required supplementary information you'll need to include in your financial report. The table below shows where to find note disclosures and required supplemental information within your GASB 68 Report per section.

WHERE TO FIND NOTE DISCLOSURES AND REQUIRED SUPPLEMENTARY INFORMATION[1]

The table below shows where to find note disclosures and required supplementary information within your GASB 68 Report per section.

Information needed	Which section you'll find it
Actuarial assumptions	Appendix B
Discount rate used	Depletion of Plan Assets/GASB Discount Rate
Investments (rate of return, allocation, return by asset class)	Long-Term Expected Rate of Return
Plan information	Appendix A
Schedules	Schedule of Deferred Inflows and Outflows
	Schedule of Changes in Net Pension Liability & Related Ratios
	Schedule of Employer Contributions[2]
Sensitivity analysis (impact of +/- 1% change in discount rate on NPL)	Changes in Net Pension Liability
Table of changes in NPL	Changes in Net Pension Liability
Table showing breakdown of pension expense	Pension Expense

[1] GASB 68 contains Illustration 2 that provides an example of the note disclosures and required supplementary information.

[2] Certain disclosure information is not provided in the GASB 68 Report including: [a] Schedule of Employer Contributions data, if the employer's fiscal year end is other than Dec. 31, and [b] Deferred outflow of resources related to employer contributions made subsequent to the measurement date.

SPECIAL TEAMS

OTHER CONSIDERATIONS

REPORTING GASB 68 ACROSS MULTIPLE FINANCIAL STATEMENTS

You may want to allocate your NPL, pension expense and deferred inflows and deferred outflows to subsets of your organization, such as different funds, divisions or departments for financial reporting purposes.

If you need to do this, please contact your TCDRS Employer Services Representative at 800-651-3848.

REVIEW THE TCDRS FUNDING POLICY

The Government Finance Officers Association (GFOA) recommends that all employers adopt a funding policy that provides reasonable assurance that the cost of benefits will be funded in an equitable and sustainable manner. This may be something that your auditor will require as a best practice.

You can find the TCDRS Funding Policy in your GASB 68 Report (Appendix D) to help you satisfy this requirement. State law requires that employers pay at least 100% of their actuarially determined employer contribution rate each year to ensure adequate funding of each employer's plan. The policy also sets the cost method, asset smoothing method and amortization policy.

AUDIT IMPLICATIONS

If you have audited financial statements, your auditor will need assurance that your pension data is accurate. This is a shared responsibility between TCDRS and your organization.

TCDRS will produce a Service Organization Control (or SOC 1) Report to provide assurance to your auditors that financial reporting data is reliable.

You will need to have "employer controls" (called Complementary User Entity Controls) in place to help ensure that the data in your financial statement regarding your TCDRS plan is reliable. Each control addresses some aspect of data access, data accuracy and data submission. You can review a list of controls and verifications on our website.

In addition to your employer controls, you and your auditor are responsible for verifying the data TCDRS publishes. You'll need to review:

- GASB 68 Report
- GASB Census Data, which includes information about your current and former employees, and retirees
- SOC 1 Report

All of this information will be available when you sign in to TCDRS.org/employers (click "Plan Documents" from the left menu). TCDRS will notify you when the materials are posted.

It is important to note that in some instances, you will not be able to directly compare the GASB Census Data to the GASB 68 Report or your internal records. For example:

- The GASB 68 Report provides member deposit information for the current year while the GASB Census Data provides the total account balance for each member.
- The GASB Census Data estimates annual salary for each of your employees based on member deposits for the year.
- The GASB Census Data service includes periods of employment with other employers, including service with all TCDRS employers and certain other governmental entities in Texas.

EQUIPMENT

ADDITIONAL RESOURCES

Your GASB 68 Report will have what you need to comply with the new GASB 68 reporting requirements. Once the report is available, TCDRS will send you a notification letting you know to sign in to your employer account at TCDRS.org/employers.

You can also find other helpful information on how GASB 68 impacts your organization, including your audit process and decision-making, on our TCDRS GASB 68 web page.

Your TCDRS Employer Services Representative is only a phone call away at 800-651-3848.

HUDDLE UP

FREQUENTLY ASKED QUESTIONS

Q. Why does our net pension liability/asset differ from our unfunded/overfunded actuarial accrued liability?

A. GASB reporting standards for pension plans separate financial reporting from plan funding. Now there are two completely different sets of numbers. One is calculated for the purpose of financial reporting and one for determining how much you need to pay to fund benefits.

Here are the equations for reporting and funding:

Net Pension Liability **(NPL) =** Total Pension Liability **(TPL) -** Financial Net Position **(FNP)**

Unfunded/Overfunded Accrued Actuarial Liability **(UAAL/OAAL) =** Actuarial Accrued Liability **(AAL) -** Actuarial Value of Assets **(AVA)**

Q. What is the difference between Financial Net Position (FNP) and Actuarial Value of Assets (AVA)?

A. On the asset side, there are two differences:

1. GASB 68 requires system-wide pooled funds to be allocated proportionately to all employers for financial reporting purposes. For example, the FNP includes your proportionate share of system-wide reserves while the AVA does not.
2. The AVA excludes certain unrecognized actuarial asset gains and losses, while the FNP does not. You can see the calculation of the AVA on page 7 of your Summary Valuation Report.

Q. What is the difference between Total Pension Liability (TPL) and Actuarial Accrued Liability (AAL)?

A. On the liability side, there are three main differences:

1. The TPL includes liabilities associated with each employer's share of the system-wide pooled retiree fund.
2. GASB 68 requires the use of a specific type of the funding method known as entry age normal to achieve their accounting goals. The funding valuation uses a different type of the entry age normal funding method that better fits funding goals.
3. GASB 68 requires the discount rate used to be gross of administrative expenses while the funding valuation is based on an investment return net of expenses. The TPL is based on a 7.6% discount rate, which includes a 0.1% expense assumption, while the AAL is based on a 7.5% investment return assumption.

Q. What reports does TCDRS provide that will help me verify my census data?

A. When you sign in to your employer account at TCDRS.org/employers, you have access to the following information:

Reports page

- Member Listing
- New Member Listing
- Employer Account Statement

Contacts page

- Web Access Report

Payroll & Contributions page

- Transaction History

Q. What should I do if I discover errors in the GASB Census Data?

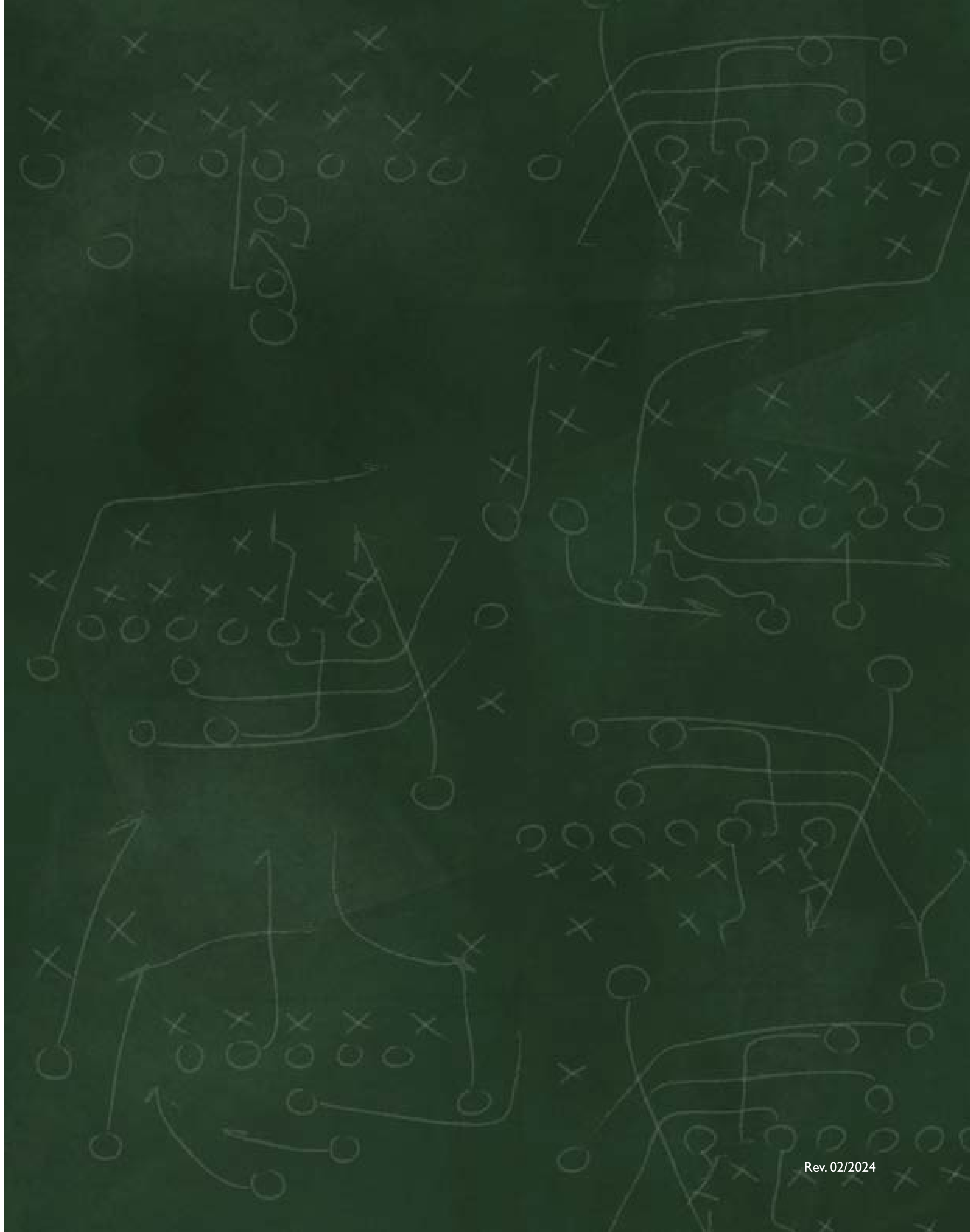
A. If you discover errors (for example, an employee without a listed gender), please contact your TCDRS Employer Services Representative at 800-651-3848. Please be aware that data corrections will be made going forward and your census data will not be retroactively adjusted.

Q. Our auditor is requesting the calculation of the depletion of plan assets/GASB discount rate. How can I obtain it?

A. Due to popular demand, Milliman will be adding the calculation to the GASB 68 Report going forward.

Q. How do we obtain a "bridge" letter to cover the period after the SOC I Report to our fiscal year end?

A. No bridge letter is required for a period after the SOC I Report end date to your fiscal year end. SOC I Reports going forward will cover the period of April 1 through the following March 31.



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