



Dave Yost • Auditor of State

Bulletin 2018-002

Auditor of State Bulletin

DATE ISSUED: September 19, 2018

TO: All Fiscal Officers and Independent Public Accountants

FROM: Dave Yost, Auditor of State

SUBJECT: Governmental Accounting Standards Board Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Background Information

Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” includes guidance for reporting other postemployment benefits (OPEB) liabilities. GASB 75 addresses accounting for defined benefit and defined contribution OPEB plans.

The five major retirement systems in Ohio include Ohio Public Employees Retirement System (OPERS), Ohio Police & Fire Pension Fund (OP&F), State Teachers Retirement System of Ohio (STRS), School Employees Retirement System of Ohio (SERS) and the Ohio Highway Patrol Retirement System (HPRS). These retirement systems provide pension benefits as well as OPEB benefits. The pension benefits were addressed in Bulletin 2015-006 – *Accounting and Financial Reporting for Pensions*. The focus of this bulletin is the OPEB benefits provided through the retirement systems. HPRS is a single-employer retirement plan while the remaining plans are multiple-employer plans. Local government employers contribute to OPERS, OP&F, STRS and SERS. The OPEB plans that are offered by these four retirement systems are defined benefit, cost-sharing plans. The focus of this bulletin will be defined benefit, cost-sharing plans. Guidance related to OPEB plans offered through local governments, including defined contribution plans, will be discussed later in this bulletin.

The GASB issued an implementation guide to supplement the guidance found in GASB 75. The Implementation Guide is organized in a question and answer format. This bulletin references specific questions from the GASB 75 Implementation Guide, 2017-3 (IG). The guidance contained in the implementation guide also has been incorporated into the GASB codification. These references have also been included.

The requirements of this Statement apply to all Ohio state and local governments that prepare GAAP (Generally Accepted Accounting Principles) Statements, including those with a GAAP reporting requirement per OAC 117-02-03(B). Some other governments may be subject to GAAP, such as through a debt covenant. GASB 75 is effective for financial statements for periods beginning after June 15, 2017. Meaning, school districts and other governments with a June 30 fiscal year end must apply GASB 75 to their June 30, 2018, GAAP financial statements; and governments with a December 31 fiscal year end must apply it to their December 31, 2018 GAAP financial statements.

Comparison to GASB 45

GASB 75 replaces much of the guidance found in GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” GASB 45 focused on a funding approach, and recognized a liability on both the accrual basis and modified accrual basis for any unpaid contractually required contributions.

GASB 75 focuses on an earnings approach for recognizing a liability on an accrual basis as OPEB are earned by employees. GASB 75 also recognizes a liability for payables to a defined benefit OPEB plan on both the accrual basis and modified accrual basis.

Under GASB 75, an intergovernmental payable will continue to be reported for any unpaid contractually required contributions at year end on both the accrual basis and modified accrual basis of accounting. On the “full-accrual” basis, governments will also report a net OPEB liability. A net OPEB liability will be recognized on the modified accrual basis of accounting to the extent payments have matured – that is, benefit payments are due and payable and the OPEB plan’s fiduciary net position is not sufficient for payment of these benefits. Currently, no Ohio retirement system has net OPEB liabilities requiring recognition on the modified accrual basis.

Calculating the Net OPEB Liability (NOL)

The NOL reported on the statement of net position represents a liability to employees for OPEB. OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The NOL represents the government’s *proportionate share* of the actuarial present value of projected benefit payments attributable to past periods of service, net of the OPEB plan’s fiduciary net position. The NOL calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments, and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Selecting a measurement date

The NOL is to be measured as of a date (*measurement date*) no earlier than the end of the employer's *prior* fiscal year, consistently applied from period to period. This determination is made by the employer.

Typically, a local government's fiscal year end is the same as the fiscal year end of the OPEB plan. In this case, the local government can report its NOL as of their current year end or as of the prior fiscal year end. (IG 4.175, codified as P50 .731-5) Once the measurement date is determined, it is to be consistently applied.

If a government participates in two separate OPEB plans, the employer is not required to use the same measurement date for each net OPEB liability. (IG 4.176 / P50 .731-6)

Example: Assume a city contributes to OPERS. The city's and OPERS' fiscal years end December 31. For its 2018 financial statements, the city can elect to use OPERS' NOL measured as of December 31, 2018 or 2017.

Because OPERS' 2018 audited financial statements and schedules of OPEB amounts might not be available in time to meet the city's 150-day filing requirement (ORC 117.38), the city may use the NOL from OPERS' 2017 financial statements and schedules of OPEB amounts.

Proportionate share - The proportionate share is a measure of the proportionate relationship of the employer to all employers within the OPEB plan. This percentage is typically based on employer contributions and will be calculated by the OPEB plan.

Collective net OPEB liability - The collective net OPEB liability is the NOL for benefits provided through a cost-sharing plan. This amount is measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service, net of the OPEB plan's fiduciary net position. The net OPEB liability represents the liability of employers to employees for benefits provided through a defined benefit OPEB plan. This amount will be provided by the retirement systems.

GASB 75 has specific requirements which the OPEB plan follows and which relate to determining the OPEB liability, including the actuarial valuation. These requirements address the timing and frequency of the actuarial valuation, the selection of assumptions, the projection of benefit payments, the discount rate, and the attribution of the actuarial present value of projected benefit payments to periods. Certain data maintained by the OPEB plan is used in this calculation process. This data includes elements such as, birth date, hire date, gender and marital status and is collectively referred to as census data. This census data is subject to the OPEB plan's audit.

A local government's NOL is calculated by multiplying the OPEB plan's collective net OPEB liability by the local government's proportionate share percentage. If the local government reports proprietary or fiduciary funds, consideration should be given to NCGA Statement 1, paragraph 42, which requires that long-term liabilities that are "directly related to and expected to be paid from" those funds be reported in the statement of net position or statement of fiduciary net position, respectively. (IG 4.173 / P50 .731-2)

To allocate the NOL between governmental activities and proprietary or fiduciary funds, a method similar to the allocation made by the OPEB plan (based on contributions) may be used or any other reasonable method may be utilized.

OPEB expense and deferred inflows/outflows - OPEB expense and/or deferred inflows/outflows are affected by changes in the collective net OPEB liability, items related to the calculation of the proportionate share and contributions made subsequent to the measurement date.

Changes in the collective net OPEB liability should be included in collective OPEB expense, except for the following which are components of deferred inflows/outflows:

1. Difference between expected and actual experience in the measurement of the total OPEB liability. *
2. Changes of assumptions *
3. Net difference between projected and actual earning on OPEB plan investments. **

*Amortized beginning in the current period over the average of the expected remaining service life of all employees that are provided with OPEB determined as of the beginning of the measurement period. The expected remaining service life will be provided by the OPEB plan.

**Amortized over a five year period

Information to calculate items 1 through 3 will be provided by the retirement system.

Contributions to the OPEB plan from employers should not be included in collective OPEB expense.

Changes related to the calculation of the proportionate share include:

1. Change in the employer's proportion percentage*
2. Difference between the employer's contribution and the employer's proportional share of contributions. *

*Amortized beginning in the current period over the average of the expected remaining service life of all employees that are provided with OPEB determined as of the beginning of the measurement period. The expected remaining service life will be provided by the OPEB plan.

Items 1 and 2 may be reported net.

Contributions to a plan from the employer subsequent to the NOL measurement date and before the end of the employer's reporting period should be reported as a deferred outflow. For example, if an employer selects a measurement date one year *prior* to its current year end, it should report all contributions during the *current* year as deferred outflows. The contributions should be calculated on a GAAP basis, not a cash basis. (IG 4.196 / P50 .736-1)

Other than employer contributions subsequent to the measurement date, there is no restatement required for deferred inflows/outflows in the implementation year if the deferred inflows/outflows amounts are not available. However, the restatement note should indicate if it includes deferred inflows of resources or deferred outflows of resources. Also, the reason for not restating prior periods should be explained.

Special Funding Situations

Special funding situations are circumstances in which a nonemployer entity is legally responsible for making contributions directly to an OPEB plan that is used to provide OPEB to the employees of another entity or entities. This should not be a common situation for most Ohio local governments; however, special funding situations can be encountered in community schools.

Payments to STRS and SERS through a deduction from school foundation do not qualify as a special funding situation for the State of Ohio. Additional information related to special funding situations can be found in GASB 75 paragraphs 109 through 127 (GASB Cod. §P50.211 - .231).

Financial Statements

The employer's proportionate share of the collective net OPEB liability is not required to be displayed separately on the face of the financial statements; i.e. it is acceptable to include it with *liabilities due in more than one year*. However, for some governments, it will be a significant balance, and governments may prefer to display it separately on the face of the financial statements. Liabilities for net OPEB liabilities associated with different plans may be aggregated for display, and assets for net OPEB assets associated with different plans may be aggregated for display. However, aggregated OPEB assets and aggregated OPEB liabilities should be separately displayed. (IG 4.43 / P50 .705-1)

Sample financial statements are available on the Auditor of State's website at <http://www.ohioauditor.gov/references/gasb75.html>.

Note Disclosure

The note disclosure requirements for cost sharing employers are identified in GASB 75 paragraphs 89 through 96 (GASB Cod. §P50.189 - .196). The total of the employer's OPEB liabilities, OPEB assets, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense/expenditure for the period associated with net OPEB liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements. The notes should also include a description of the OPEB plan (GASB 75 ¶91 / Cod. §P50.191), information about the employer's proportionate share of the collective net OPEB liability (GASB 75 ¶92 - ¶94 / Cod. §P50.192 - .194), information about the OPEB Plan's fiduciary net position (GASB 75 ¶95 / Cod. §P50.195), as well as other information (GASB 75 ¶96 / Cod. §P50.196). These disclosure requirements are quite lengthy. Refer to the referenced GASB 75 / Codification paragraphs for the specific requirements.

In addition, the amount of payables to a defined benefit OPEB plan outstanding at the end of the reporting period, significant terms related to the payables, and a description of what gave rise to the payable should be included in the notes to the financial statements.

Note disclosure shells are available on the Auditor of State's website at <http://www.ohioauditor.gov/references/gasb75.html>. We believe these examples meet the requirements of Statement 75. However, each governmental employer is responsible for comparing their disclosure with the aforementioned paragraphs in GASB 75 to determine if their disclosure is complete and accurate.

Required Supplementary Information (RSI)

All cost-sharing employers need to present the following required supplementary information separately for each cost-sharing OPEB plan through which OPEB are provided. (GASB 75 ¶97 / Cod. §P50.197)

A 10 year schedule with amounts determined as of the measurement date of the collective net OPEB liability:

- The employer's proportion (percentage) of the collective net OPEB liability
- The employer's proportionate share (amount) of the collective net OPEB liability
- The employer's covered payroll/covered employee payroll
- The employer's proportionate share (amount) of the collective net OPEB liability as a percentage of the employer's covered-employee payroll
- The OPEB plan's fiduciary net position as a percentage of the total OPEB liability

If the contribution requirements of the employer are statutorily or contractually established, a 10 year schedule presenting the following with amounts determined as of the employer's most recent fiscal year-end:

- The statutorily or contractually required employer contribution
- The amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution
- The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution
- The employer's covered payroll/covered employee payroll
- The amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution as a percentage of the employer's covered-employee payroll

Information contained in RSI schedules will be different if the employer has a special funding situation.

Information about factors that significantly affect trends in the amounts presented in the RSI schedules should be presented as notes to the schedules.

If contributions to the OPEB plan are based on a measure of pay, the covered payroll presented in the RSI schedules is the payroll on which contributions to the OPEB plan are based. If the contributions to the OPEB plan are not based on a measure of pay, the RSI schedules should present covered- employee payroll, which is the total payroll of covered employees. (GASB 85 ¶14 / Cod. §P50.197)

The RSI schedules should not include information that is not measured in accordance with GASB 75 requirements.

The information for all periods for the 10 year schedules that are required to be presented as RSI may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available.

Sample RSI schedules are available on the Auditor of State's website at <http://www.ohioauditor.gov/references/gasb75.html>.

Transition

Governments should restate beginning net position. For example, a school district's June 30, 2018, statement of activities should reduce its previously-reported June 30, 2017, net position by the NOL applicable to June 30, 2017. (This would be the NOL computed as of June 30, 2016, if the school district selected a measurement date one year prior to its fiscal year end.)

Beginning net position should also be restated for any contributions made subsequent to the measurement date. As mentioned above, for the remaining deferred inflows/outflows, GASB 75 encourages, but does not require governments to allocate its beginning NOL between net position and deferred inflows/outflows.

Also refer to disclosure requirements related to the restatement of deferred inflows/outflows referenced in the discussion of the collective net OPEB liability above.

Defined Contribution Plans

On an accrual basis of accounting, OPEB expense related to defined contribution plans should equal the amount of contributions attributable to employees' services in the period and changes in the OPEB liability equal to the difference between the amount recognized as OPEB expense and amounts paid by the employer to the OPEB plan.

On a modified accrual basis of accounting, OPEB expenditures should be equal to amounts paid by the employer to the OPEB plan and the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. This amount represents the extent that contributions are due and payable pursuant to legal requirements, including contractual arrangements.

GASB 75 paragraph 233 identifies the disclosure requirements related to defined contribution plans.

Other OPEB Plans

OPEB include not only postemployment healthcare, but also include other postemployment benefits such as death benefits, life insurance, disability, and long-term care when provided separately from a pension plan. Certain local governments in Ohio have their own OPEB plans that will need to be evaluated to determine if they meet the criteria for reporting under GASB 74/75.

Applicability to Non-GAAP Entities

Governments not *statutorily* required to prepare GAAP statements that prepare Other Comprehensive Basis of Accounting (OCBOA) or Regulatory basis financial statements will not present their NOL on their financial statements and need not disclose their NOL in the notes. However, governments *statutorily* required to prepare GAAP statements, but that choose to prepare OCBOA or regulatory statements instead, will need to disclose OPEB information in their notes.

A sample OCBOA OPEB note for governments required to prepare GAAP statements but choose to prepare OCBOA statements is available on our website at: <http://www.ohioauditor.gov/references/gasb75.html>.

Information Available from the Retirement Systems

The *AICPA Audit and Accounting Guide: State and Local Governments* (the Guide) provides guidance regarding two schedules that are prepared by the retirement system for the OPEB plan and audited by the plan auditor. These audited schedules will be available through the retirement systems and through the audit search function on the Auditor of State website. The schedules will contain much of the information necessary to implement GASB 75.

Audit Considerations - Employer Responsibilities

The majority of OPEB provided to government employees in Ohio are postemployment health care administered by the retirement systems. While the retirement systems will provide much of the information needed to report the Net OPEB Liability, deferred inflows of resources, deferred outflows of resources, and OPEB expense in their audited Schedule of Employer Allocations and Schedule of OPEB Amounts, employers will have to calculate some of the employer specific deferred amounts and related amortizations as described in the *OPEB expense and deferred inflows/outflows* section of this bulletin. Employers have various responsibilities related to the implementation of GASB 75. Among these responsibilities are:

- Determine an appropriate measurement date as described above.
- Report complete and accurate census data to the retirement systems.
- Periodically reconcile contributions sent to the plan with payroll data.
- Evaluate the appropriateness of the information used to record financial statement amounts.
- Evaluate whether the retirement system auditor's report on the *Schedule of Employer Allocations* and *Schedule of OPEB Amounts* is adequate and appropriate for employer purposes.
- Verify the employer contribution amounts reflected in the *Schedule of Employer Allocations* agree with the employer's contribution records.
- Recalculate the allocation percentage.
- Ensure all of the employer codes associated with the government are included in the calculations.
- Recalculate the allocation of OPEB amounts based on the allocation percentage of the employer.
- Maintain all amortization schedules for deferred inflows/outflows and OPEB expense amounts.

Additionally, employers will need to provide management's representations to their auditors regarding the completeness and accuracy of the data provided to the retirement systems as well as the appropriateness of the OPEB amounts reported in the financial statements. These representations should be included in management's representation letter the auditors will obtain at the conclusion of the audit.

Audit Considerations - Employer Auditor Responsibilities

Employer auditors are responsible for opining on the financial statements of the employers. As part of the audit process, the employer auditors must obtain sufficient, appropriate audit evidence to reduce the risk of material misstatement to an acceptably low level. Since much of the information needed to calculate the proportionate share, Net OPEB Liability, deferred inflows, deferred outflows and OPEB expense is only available from the retirement systems, the retirement systems will be preparing Schedules of Employer Allocations and OPEB Amounts (the schedules) to provide the information to the employers. The retirement system auditors will opine on these schedules in accordance with AU-C section 805.

Actuaries develop the estimates of the Net OPEB Liability, deferred inflows, deferred outflows and OPEB expense based on financial data and elements of non-financial data known as census data as discussed in the *Calculating the Net OPEB Liability* section of this bulletin. Since the actuarial valuations are based, in part, on this data and the schedules are prepared based on the actuarial valuations, the retirement system auditors must gain assurances that the census data provided to the actuary is accurate and complete before they can opine on the schedules. To gain these assurances, the retirement system auditors select samples of employers for census data testing, and identify the elements of census data for which assurances are required. Since the implementation of GASB 68 for pensions, the AOS has performed examination engagements over the census data for each of the employers selected by the retirement system auditors and reported the results to the retirement system auditors. The retirement system auditors use these examination reports to provide assurances that the census data reported to the retirement system was complete and accurate. With the implementation of GASB 75, these census data examination engagements are modified as necessary to provide any additional assurances necessary to support the OPEB amounts in addition to the pension amounts. For future years, retirement system auditors will continue to select a sample of employers for census data testing. The AOS and/or IPAs will perform examinations on the census data elements and report the results to the retirement system auditors to provide the necessary assurances.

Employer auditors will generally use the retirement system auditor's reports on the retirement system's financial statements and the audited Schedule of Employer Allocations and Schedule of OPEB Amounts as audit evidence that the OPEB amounts allocated to the employer and included in the employer's financial statements are not materially misstated. Employer auditors have various responsibilities related to using this audited information from the retirement systems including:

- Evaluate controls over reporting contributions to the plan.
- Test the contributions to the retirement systems.
- Ensure the employer contribution amounts used to calculate the allocation percentage agrees with the employer's records.
- Recalculate the amounts provided in the audited schedules.
- Test all amortization schedules.
- Test the information reported in the notes to the financial statements to ensure all of the required disclosures are included.
- Review the required supplementary information to ensure it includes the required elements.
- Auditors are also responsible for evaluating whether the retirement system auditor's report on the Schedules of Employer Allocations and OPEB Amounts (the schedules) provide sufficient, appropriate audit evidence.

For AOS Audits: The Center for Audit Excellence (CFAE) will document and evaluate centrally:

- The professional qualifications of the actuary used by the retirement systems;
- Whether the actuarial valuation date is appropriate;
- Whether the methods and assumptions used by the actuary are in accordance with the requirements of GASB 75;
- The professional competence and independence of the retirement system auditors; and,
- Whether the retirement system auditor’s report on the schedules is adequate to provide the sufficient and appropriate audit evidence.

The CFAE will provide a memo to AOS auditors documenting whether they can rely on the audited employer schedules.


For IPA Audits: IPAs will be responsible for their own evaluation of the retirement system auditor’s report on the schedules.

Additional Resources Available on the Auditor of State’s Website

The Auditor of State’s Office has additional resources related to GASB 75’s implementation available on our website at <https://ohioauditor.gov/references/gasb75.html>. The resources include sample financial statements, Management’s Discussion & Analysis, and notes for each of the OPEB plans. We will also have a FAQ document available. These resources will be updated as additional information becomes available.

Questions

If you have any questions regarding the information presented in the Bulletin, please contact Local Government Services at the Auditor of State’s Office at (800) 345-2519.



Dave Yost
Auditor of State