



FINANCIAL AUDIT ADVISORY COMMITTEE

Report

Tuesday, April 18, 2017

Present: Councilor Fuller (Chair), Councilor Auchincloss, Councilor Danberg, School Committee Member Margaret Albright, Citizen Representative Tony Logalbo, and Citizen Representative David Spector

Also present: Comptroller Sue Dzikowski, City Treasurer and Collector Jim Reardon, and Matthew Hunt of Clifton Larson Allen LLP

Upcoming Audit

The Committee met with Matt Hunt of Clifton, Larson, Allen, LLC (CLA), the City's external auditing firm, to review the goals for the upcoming audit. Mr. Hunt believes that the CLA team is well suited for the Newton audit. There is an upcoming meeting with Mr. Hunt, Jim Piotrowski (CLA Audit Manager), former Comptroller David Wilkinson, and Comptroller Sue Dzikowski to discuss the transition from Mr. Wilkinson to Ms. Dzikowski in relation to the external audit to ensure that everyone is on the same page in terms of what information the Comptroller will provide to CLA. Once that meeting happens, there will be a better understanding of scheduling the preliminary work.

The retirement system preliminary audit fieldwork is starting on April 24, 2017. The auditors will begin looking at the Retirement System budget, which will include a review of the actuarial evaluation of the pension-funding schedule. The federal grant audit will begin in June and the primary audit fieldwork will start in mid-September. The Comptroller's draft Comprehensive Annual Financial Report is usually complete by early to mid-November. All of the draft reports including the Management Letter and Federal Awards Report should be available by December 12, 2017 for the Committee's exit conference with CLA.

The City has changed its Other Post-Employment Benefits (OPEB) actuary this year and there was a question regarding whether this would cause any issues with the external audit. Mr. Hunt responded that the transition should not create any issues. The new actuarial firm for the OPEB is the same firm that the Retirement System currently uses for its pension valuations.

Each audit cycle the Committee chooses a school and/or City department for the auditors to visit for a more focused review. In Fiscal Year (FY) 2014, the auditors visited the Bigelow Middle School to review policies and procedures related to student activity fund accounts and the Inspectional Services Department to look at cash and check collection procedures. In FY 2015, the auditors focused on the Oak Hill Middle School activity funds and the Utilities Division to look at the water/sewer/storm water payroll and in FY 2016 the auditors' sole focus was a review of the Human Resources payroll processes.

The Committee discussed whether there was any need to continue with the review of the student activity funds as there are now formal policies and procedures in place at all of the schools. The Committee discussed other places where cash collection takes place within the School

Department. The Ed Center collects cash for all types of student fees including sports, music, bus, music and drama fees; however, athletic directors at the high schools and middle schools often collect athletic fees in cash. It may make sense for the auditors to focus on collection policies for athletic fees in this audit cycle. The Chair suggested that Margaret Albright and Sue Dzikowski reach out to the School Department to get feedback on athletic fee collection before completely greenlighting the project for the auditor. In addition, the Committee felt that the auditor should continue to focus on the Human Resources Department's payroll functions, as there continues to be issues particularly with paying employees correctly. Once Ms. Albright and Ms. Dzikowski speak with the School Department, they will e-mail the Committee and Mr. Hunt to move forward with the athletic fees.

The Committee reviewed the work of the Accounting and Audit Sub-committee of the Financial Audit Advisory Committee. The Accounting and Audit Sub-committee recently met with the appropriate department heads to review the auditors' comments and the administration's responses to the comments contained in the auditors' management letter dated June 30, 2016. The City is making steady progress on addressing the issues raised in the auditor's Management Letter.

Mr. Hunt moved the discussion to the implementation of new Governmental Accounting Standards Board (GASB) pronouncements. This year the City is required to implement GASB Pronouncement 74, which requires the City to include the net OPEB liability, the OPEB Trust's net position, the assumptions used to determine the net OPEB liability, a 10-year schedule and other information related to OPEB contributions and reserves as part of the CAFR footnotes. The attached summary of GASB Statement 74 provides further information on the pronouncement requirements. Next year the City will implement GASB Statement 75, which requires the City to put the full OPEB liability in the financial statements as part of the balance sheets. For details on GASB Statement 75, refer to the attached summary. It was noted that GASB does not require the use of a 4% discount rate to calculate the OPEB funding schedule. The City can continue to use its more conservative discount rate of 2% if it chooses. The OPEB Board of Trustees will be discussing what discount rate to use. The City will also be implementing GASB Statement 77 this year. The Statement requires the City to disclose information related to any tax abatement programs resulting from agreements between the City and a person or entity in which the City foregoes taxes and the entity promises to take an action that contributes to something that benefits the City or its residents like economic development. The disclosure will include a description of the abated tax, the provisions that establish the abatement program, eligibility criteria, the dollar amount of the abatement, and provisions for recapturing the abated taxes. If the City does not have any abatement programs that meet the criteria of Statement 77, there will be a statement to that effect in the footnotes.

Investment Policies

The City has investment policies approved by their respective Boards of Trustees for the four largest trust funds (Chaffin, Cousens, Scovell, and the Newton North High Trust Fund), which all state that the Treasurer acts primarily as custodian of the trust funds. An outside investment firm is managing each of these funds. The City also maintains a Workers' Compensation Trust Fund that is directly under City control and managed by Mellon Wealth Management.

The smaller funds do not have significant amounts of money in them and a decision was made to consolidate these funds and invest them as one fund with the Massachusetts Municipal Depository Trust. Any disbursement from these smaller funds is done through the warrant process. The Comptroller is responsible for the smaller funds.

The Committee discussed the possibility of closing the smaller funds and disbursing the funds. The City and School Department need to come up with a plan for the smaller trust funds. A Committee member suggested that the Comptroller check with other communities to see how they have handled small trust funds. The Committee members asked the Comptroller with input from the Law Department to come up with a plan over the next nine months to deal with the small trust funds. Committee members David Spector, Margaret Albright, and Vicky Danberg will provide the Comptroller with additional help. In addition, Treasurer Jim Reardon will ask Deputy Treasurer Linda Dubuque to assist the Comptroller. The Committee asked for an update at the Financial Audit Committee meeting in October.

Financial Software

Discussion on upgrading or replacing the City's financial software continues. The Administration is currently working on developing a process for the purchase of new software. It is expected to take approximately 1 ½ years to implement any significant change to the software. The expected cost of the upgrade or replacement is \$3 million. The Administration will provide an update at the next meeting.

Respectfully submitted,

Ruthanne Fuller, Chair

SUMMARY - STATEMENT NO. 74

SUMMARIES / STATUS

SUMMARY OF STATEMENT NO. 74

FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS

(ISSUED 06/15)

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

DEFINED BENEFIT OPEB PLANS

Defined Benefit OPEB Plans That Are Administered through Trusts That Meet the Specified Criteria

Financial Statements

For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, this Statement requires two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position.

In addition to the requirements of this Statement, those plans also are required to follow all accounting and financial reporting requirements of other standards, as applicable.

Notes to Financial Statements

This Statement requires that notes to financial statements of all defined benefit OPEB plans that are administered through trusts that meet the specified criteria include descriptive information, such as the types of OPEB provided, the classes of plan members covered, and the composition of the OPEB plan's board. Such OPEB plans also are required to disclose information about OPEB plan investments, including the OPEB plan's investment policies, concentrations of investments with individual organizations equaling or exceeding 5 percent of the OPEB plan's fiduciary net position, and the annual money-weighted rate of return on OPEB plan investments. Other required note disclosures include information about contributions, reserves, and allocated insurance contracts.

For single-employer and cost-sharing OPEB plans that are administered through trusts that meet the specified criteria, the following information also is required to be disclosed:

- ▶ Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability
- ▶ Significant assumptions and other inputs used to measure the total OPEB liability and information about the sensitivity of the measure of the net OPEB liability to changes in the discount rate and changes in the healthcare cost trend rate.

Required Supplementary Information

All defined benefit OPEB plans are required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on OPEB plan investments for each year.

For single-employer and cost-sharing OPEB plans, the following information for each of the 10 most recent fiscal years is required to be presented as required supplementary information:

- ▶ Sources of changes in the net OPEB liability
- ▶ Information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.

If an actuarially determined contribution is calculated for employers or nonemployer contributing entities in a single-employer or cost-sharing OPEB plan, the OPEB plan is required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios. Significant methods and assumptions used in calculating the actuarially determined contributions are required to be presented as notes to the schedules.

In addition, all OPEB plans, including agent OPEB plans, are required to explain certain factors that significantly affect trends in the amounts reported in the schedules of required supplementary information, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

Measurement of the Net OPEB Liability

This Statement requires the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The total OPEB liability generally is required to be determined through an actuarial valuation. However, if an OPEB plan has fewer than 100 plan members (active and inactive), use of a specified alternative measurement method in place of an actuarial valuation is permitted. Actuarial valuations, or calculations using the specified alternative

measurement method, of the total OPEB liability are required to be performed at least every two years, with more frequent valuations or calculations encouraged. If a valuation or calculation is not performed as of the OPEB plan's fiscal year-end, the total OPEB liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation or alternative measurement method calculation (performed as of a date no more than 24 months prior to the OPEB plan's fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total OPEB liability are required to be made in conformity with the guidance in Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the OPEB plan's fiscal year-end. For purposes of evaluating the benefit terms, consideration is required to be given to the written plan document, as well as additional information, including other communications between the employer and plan members and an established pattern of practice with regard to the sharing of benefit-related costs with inactive plan members. Certain legal or contractual caps on benefit payments to be provided are required to be considered in projections of benefit payments.

This Statement requires that projections of benefit payments incorporate the effects of projected salary changes (if the OPEB formula incorporates compensation levels) and service credits (if the OPEB formula incorporates periods of service), as well as projected automatic postemployment benefit changes (including automatic cost-of-living adjustments [COLAs]). The effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic, also are required to be included in the projections. This Statement also requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on benefit payments.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on OPEB plan investments to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

This Statement requires that the actuarial present value of projected benefit payments be attributed to periods of plan member service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each plan member individually, from the period when the plan member first provides service under the benefit terms through the period in which the member is assumed to exit service.

Alternative measurement method

This Statement includes an option for the use of a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). The alternative measurement method is an approach that includes the same broad measurement steps as an actuarial valuation (projecting benefit payments, discounting projected benefit payments to a present value, and attributing the present value of projected benefit payments to periods using an actuarial cost method). However, it permits simplification of certain assumptions so that the method potentially could be applied by nonspecialists.

Assets Accumulated for Purposes of Providing OPEB through Defined Benefit OPEB Plans That Are Not Administered through Trusts That Meet the Specified Criteria

This Statement requires that, for accounting and financial reporting purposes, assets accumulated for purposes of providing OPEB through OPEB plans that are not administered through trusts that meet the specified criteria not be accounted for as OPEB plan assets. Instead, any assets accumulated for OPEB purposes are required to be reported as assets of the employer or nonemployer contributing

entity.

If an OPEB plan is not administered through a trust that meets the specified criteria, a government that holds assets accumulated for OPEB purposes in a fiduciary capacity is required to report those assets in an agency fund. The amount of assets accumulated in excess of liabilities for benefits due to plan members and accrued investment and administrative expenses is required to be reported as a liability to participating employers or nonemployer contributing entities. If the agency fund is included in the financial report of an employer whose employees are provided with benefits through the OPEB plan or a nonemployer contributing entity that makes benefit payments as OPEB comes due, balances reported by the agency fund are required to exclude amounts that pertain to the employer or nonemployer contributing entity that reports the agency fund.

DEFINED CONTRIBUTION OPEB PLANS THAT ARE ADMINISTERED THROUGH TRUSTS THAT MEET THE SPECIFIED CRITERIA

In the notes to financial statements, defined contribution OPEB plans that are administered through trusts that meet the specified criteria are required to disclose the classes of plan members covered; the number of plan members, participating employers, and, if any, nonemployer contributing entities; and the authority under which the OPEB plan is established or may be amended.

EFFECTIVE DATE AND TRANSITION

This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

HOW THE CHANGES IN THIS STATEMENT WILL IMPROVE FINANCIAL REPORTING

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 5–8 discuss the applicability of this Statement.

SUMMARY - STATEMENT NO. 75

SUMMARIES / STATUS

SUMMARY OF STATEMENT NO. 75

ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

(ISSUED 06/15)

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- ▶ Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- ▶ OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- ▶ OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

DEFINED BENEFIT OPEB

Defined Benefit OPEB That Is Provided through OPEB Plans That Are Administered through Trusts That Meet the Specified Criteria

For OPEB that is administered through a trust that meets the specified criteria, requirements differ based on the number of employers whose employees are provided with OPEB through the OPEB plan and whether OPEB obligations and OPEB plan assets are shared by the employers. Employers are classified in one of the following categories for purposes of this Statement:

- ▶ Single employers are those whose employees are provided with defined benefit OPEB through single-employer OPEB plans—OPEB plans in which OPEB is provided to the employees of only one employer (as defined in this Statement).
- ▶ Agent employers are those whose employees are provided with defined benefit OPEB through agent multiple-employer OPEB plans—OPEB plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- ▶ Cost-sharing employers are those whose employees are provided with defined benefit OPEB through cost-sharing multiple-employer OPEB plans—OPEB plans in which the OPEB obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the OPEB plan.

Measurement of the OPEB Liability to Employees for Benefits

This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

The total OPEB liability generally is required to be determined through an actuarial valuation. However, if fewer than 100 employees (active and inactive) are provided with OPEB through the plan, use of a specified alternative measurement method in place of an actuarial valuation is permitted. An actuarial valuation or a calculation using the specified alternative measurement method of the total OPEB liability is required to be performed at least every two years, with more frequent valuations or calculations encouraged. If an actuarial valuation or a calculation using the alternative measurement method is not performed as of the measurement date, the total OPEB liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation or alternative measurement method calculation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total OPEB liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on claims costs, or age-adjusted premiums approximating claims costs, and the benefit terms and legal agreements existing at the measurement date. For purposes of evaluating the benefit terms, consideration is required to be given to the written plan document, as well as other information, including other communications between the employer and employees and an established pattern of practice with regard to the sharing of benefit-related costs with inactive employees. Certain legal or contractual caps on benefit payments to be provided are required to be considered in projections of benefit payments.

This Statement requires that projections of benefit payments incorporate the effects of projected salary changes (if the OPEB formula incorporates future compensation levels) and service credits (if the OPEB formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs). The effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively

automatic, also are required to be included in the projections. This Statement also requires that projections of benefit payments include certain taxes or other assessments expected to be imposed on the benefit payments.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on OPEB plan investments to the extent that the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and OPEB plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

This Statement requires that the actuarial present value of projected benefit payments be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the first period in which the employee provides service under the benefit terms, through the period in which the employee exits active service.

Alternative measurement method

This Statement includes an option for the use of a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through an OPEB plan in which fewer than 100 employees (active and inactive) are provided with OPEB through the plan. The alternative measurement method is an approach that includes the same broad measurement steps as an actuarial valuation (projecting benefit payments, discounting projected benefit payments to a present value, and attributing the present value of projected benefit payments to periods using an actuarial cost method). However, it permits simplification of certain assumptions.

Single and Agent Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net OPEB liability. The net OPEB liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year and no later than the end of the employer's current fiscal year (the measurement date), consistently applied from period to period.

The OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB that are required to be reported by an employer primarily result from changes in the components of the net OPEB liability—that is, changes in the total OPEB liability and in the OPEB plan's fiduciary net position.

This Statement requires that most changes in the net OPEB liability be included in OPEB expense in the period of the change. For example, changes in the total OPEB liability resulting from current-period service cost, interest on the total OPEB liability, and changes of benefit terms are required to be included in OPEB expense immediately. Projected earnings on the OPEB plan's investments also are required to be included in the determination of OPEB expense immediately.

In circumstances in which the net OPEB liability is determined based on the results of an actuarial valuation, the effects of certain other changes in the net OPEB liability are required to be included in OPEB expense over the current and future periods. The effects on the total OPEB liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the OPEB plan (active employees and inactive employees), beginning in the current period.

Under all means of determining the net OPEB liability, the effect on the net OPEB liability of differences between the projected earnings on OPEB plan investments and actual experience with regard to those earnings is required to be included in OPEB expense in a systematic and rational

manner over a closed period of five years, beginning in the current period.

Changes in the net OPEB liability that have not been included in OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB.

Employer contributions subsequent to the measurement date of the net OPEB liability are required to be reported as deferred outflows of resources.

In governmental fund financial statements, a net OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits come due, and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

Notes to financial statements

This Statement requires that notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also are required to disclose information that includes the following, as applicable:

- ▶ For the current year, sources of changes in the net OPEB liability
- ▶ Significant assumptions and other inputs used to calculate the total OPEB liability, including those about inflation, the healthcare cost trend rate, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies
- ▶ The date of the actuarial valuation or calculation using the alternative measurement method used to determine the total OPEB liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the OPEB plan, and information about the purchase of allocated insurance contracts, if any.

Required supplementary information

This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

- ▶ Sources of changes in the net OPEB liability
- ▶ The components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability, and the net OPEB liability as a percentage of covered-employee payroll.

If an actuarially determined contribution is calculated for a single or agent employer, the employer is required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios. If a single or agent employer does not have information about an actuarially determined contribution but has a contribution requirement that is established by statute or contract, the employer is required to present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the OPEB plan, and related ratios.

Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, are required to be presented as notes to required supplementary information. In addition, the employer is required to explain certain factors that significantly affect trends in the amounts reported in the schedules.

Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net OPEB liability (of all employers for benefits provided through the OPEB plan)—the collective net OPEB liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the OPEB plan are determined. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize OPEB expense and report deferred outflows of resources and deferred inflows of resources related to OPEB for its proportionate shares of collective OPEB expense and collective deferred outflows of resources and deferred inflows of resources related to OPEB.

In addition, the effects of (1) a change in the employer's proportion of the collective net OPEB liability and (2) differences during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability are required to be determined. These effects are required to be recognized in the employer's OPEB expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees). The portions of the effects not recognized in the employer's OPEB expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. Employer contributions to the OPEB plan subsequent to the measurement date of the collective net OPEB liability also are required to be reported as deferred outflows of resources related to OPEB.

In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to the OPEB plan, including amounts paid for OPEB as the benefits come due, and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This Statement requires that notes to financial statements of cost-sharing employers include descriptive information about the OPEB plans through which the OPEB is provided. Cost-sharing employers are required to identify the discount rate and assumptions made in the measurement of their proportionate shares of net OPEB liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also are required to disclose information about how their contributions to the OPEB plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net OPEB liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the OPEB plan, and related ratios.

Defined Benefit OPEB That Is Provided through OPEB Plans That Are Not Administered through Trusts That Meet the Specified Criteria

For employers that provide insured benefits—defined benefit OPEB through an arrangement whereby premiums are paid or other payments are made to an insurance company while employees are in active service, in return for which the insurance company unconditionally undertakes an obligation to pay the OPEB of those employees—this Statement requires recognition of OPEB expense/expenditures equal to the amount of premiums or other payments required in accordance with their agreement with the insurance company. In addition to the amount of OPEB expense/expenditures recognized in the current period, a brief description of the benefits provided through the arrangement is required to be disclosed.

For defined benefit OPEB, other than insured benefits, that are provided through OPEB plans that are not administered through trusts that meet the specified criteria, this Statement requires an approach to measurement of OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB parallel to that which is required for OPEB provided through OPEB plans that are administered through trusts that meet the specified criteria. Similar note disclosures and required supplementary information are required to be presented. However, the requirements incorporate modifications to reflect the absence of OPEB plan assets for financial reporting purposes.

DEFINED CONTRIBUTION OPEB

This Statement requires an employer whose employees are provided with defined contribution OPEB to recognize OPEB expense for the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. A change in the OPEB liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to (or benefit payments through) a defined contribution OPEB plan. In governmental fund financial statements, OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to (or benefit payments through) an OPEB plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. An OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Notes to financial statements of an employer with a defined contribution plan are required to include descriptive information about the OPEB plan and benefit terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

SPECIAL FUNDING SITUATIONS

In this Statement, special funding situations are defined as circumstances in which a nonemployer entity is legally responsible for providing certain forms of financial support for OPEB of the employees of another entity. Relevant forms of financial support are contributions directly to an OPEB plan that is administered through a trust that meets the specified criteria, including benefit payments as OPEB comes due for OPEB provided through such a plan, or making benefit payments directly as the OPEB comes due in circumstances in which OPEB is provided through an OPEB plan that is not administered through a trust that meets the specified criteria. Such support is a special funding situation if either (1) the amount of contributions or benefit payments, as applicable, for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to the OPEB or (2) the nonemployer entity is the only entity with a legal obligation to make contributions directly to an OPEB plan or to make benefit payments as OPEB comes due, as applicable.

This Statement requires an employer that has a special funding situation for defined benefit OPEB to recognize an OPEB liability and deferred outflows of resources and deferred inflows of resources related to OPEB with adjustments for the involvement of nonemployer contributing entities. The employer is required to recognize its proportionate share of the collective OPEB expense, as well as additional OPEB expense and revenue for the OPEB support of the nonemployer contributing entities. This Statement requires that the employer disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities and present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach that is required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental nonemployer contributing entity in a special funding situation for defined benefit OPEB is similar to the approach required for cost-sharing employers.

The information that is required to be disclosed in notes to financial statements and presented in required supplementary information of a governmental nonemployer contributing entity in a special funding situation depends on the proportion of the collective net OPEB liability that it recognizes. In circumstances in which a governmental nonemployer contributing entity recognizes a substantial proportion of the collective net OPEB liability, requirements for note disclosures and required supplementary information are similar to those for cost-sharing employers. Reduced note disclosures and required supplementary information are required for governmental nonemployer contributing entities that recognize a less-than-substantial portion of the collective net OPEB liability.

This Statement also establishes requirements related to special funding situations for defined contribution OPEB.

EFFECTIVE DATE

This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- ▶ More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.
- ▶ Explanations of how and why the OPEB liability changed from year to year will improve transparency.
- ▶ The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.
- ▶ For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will be improved by requiring:

- ▶ The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return
- ▶ A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations
- ▶ Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms
- ▶ Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 6 discusses the applicability of this Statement.