



STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

TO: County, City, and Town Chief Fiscal Officers
FROM: Accounting Services Division
DATE: April 9, 2009
SUBJECT: Treatment of Other Postemployment Benefits (OPEB) Costs on the Annual Expenditure Limitation Report (AELR)

Pursuant to Governmental Accounting Standards Board (GASB) Statement Nos. 43 and 45, counties, cities, and towns that provide other postemployment benefits (OPEB)¹ should recognize the cost of such benefits during the period when employees render services, and record the applicable assets or liabilities based on the entities' actions taken to fund the OPEB.

Counties, cities, and towns that participate solely in the State's retirement systems or plans

For counties, cities, and towns that participate solely in the Arizona State Retirement System, Public Safety Personnel Retirement System, Corrections Officer Retirement Plan, and Elected Officials Retirement Plan and offer no additional OPEB, contractual contributions to those systems or plans represent the true OPEB cost paid on an annual basis. Accordingly, those counties, cities, and towns generally do not need to make any adjustments to expenditures reported in the AELR.

Counties, cities, and towns that offer other OPEB benefits

For those entities that offer OPEB instead of, or in addition to, the State's systems and plans listed above, OPEB costs were generally recorded when benefits were paid prior to the implementation of GASB Statement Nos. 43 and 45. With the implementation of these GASB Statements, the entities will report additional expenses and liabilities.

OPEB expenditures reported in the governmental funds do not require any adjustment on the AELR as expenditures are only recorded in the governmental funds when a cash outlay is made. However, if an entity accounts for OPEB in an enterprise, internal service, or fiduciary fund, adjustments may be necessary on the AELR Reconciliation to accurately reflect the actual cash outlay for OPEB in those funds.

In accordance with GASB Statement Nos. 43 or 45, if an entity records OPEB in an enterprise, internal service, or fiduciary fund, the actuarial estimate of OPEB service costs is recognized as an expense each year even though no cash outlays are made. Accordingly, those expenses are included in the total expenses recorded on Line A of the AELR Reconciliation. Since this expense represents an accounting liability rather than a cash outlay, entities should deduct the current year increase in the OPEB liability on the AELR Reconciliation. Likewise, when OPEB costs are paid (including payments to beneficiaries, insurers, or irrevocable trusts), cash outlays

¹ OPEB includes postemployment healthcare benefits, such as medical, prescription drug, dental, vision, and hearing coverage, that are provided through a defined benefit pension plan or are separate from such a plan. Life insurance, disability, long-term care, and other benefits also qualify as OPEB, but only when provided separately from a defined benefit pension plan.

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represent reductions in the OPEB liability accrued in prior years rather than current year expenses in the financial statements. Therefore, such OPEB payments must be added in the current year on the AELR Reconciliation.

To record these adjustments, entities may add the following line items on the AELR Reconciliation, as applicable:

- Under Line B.1, Items not requiring the use of working capital—“Other postemployment benefits expense”
- Under Line C—“Other postemployment benefits paid in the current year but reported as expenses in previous years”

These line items will be included on the standard forms in the *Uniform Expenditure Reporting System* manual when it is revised.

If you have any questions concerning the guidance in this memorandum, please call Cris Cable, Accounting Services Senior, or Michael Stelpstra, Accounting Services Manager, at (602) 553-0333.