INTRODUCTION

State and local governments are required to report an accrual based liability for employee and retiree health care costs under Governmental Accounting Standards Board (GASB) Statement No. 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 2004). During 2013 most state and local governments report the liability in some financial statements under the accrual basis of accounting as required by the GASB. Unfortunately, even though the liability applies to other important financial statements such as for the general fund, the amount of the liability is not fully disclosed in those financial statements. While reconciliation information and other disclosures such as Management’s Discussion and Analysis, and the Notes to the Financial Statements, and Required Supplementary Information (RSI) provide additional information, the presentation should be improved especially to aid investors in general obligation bonds. This paper reviews the financial reporting issues for the five large states including California, Florida, Illinois, New York and Texas. Three large cities, Indianapolis,

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2 Hereinafter referred to as the GASB 45 liability.
Philadelphia, and Phoenix are also included. Recommendations to improve financial reporting are also presented.

The issue concerning the amount of the GASB 45 liability is national in scope. The Pew Center on the States issued a report in June 2012 entitled *The Widening GAP Update* which illustrated that the 50 states collectively have an unfunded health care liability of $627 billion (Pew 2012). The financial impact issue is further complicated by additional data in the Pew Center’s report which illustrated that the 50 states have an unfunded pension cost liability of approximately $757 billion. These liabilities, which should be viewed in conjunction with each other aggregate to $1.38 trillion. The Pew research report indicated that the states have only set aside about 5 percent of their future health care liability. Fifteen states, including New York have set aside no funds to pay for the health care liability. Many of the larger states such as California (funded at only .01 percent), Florida (0 percent), Illinois (0.1 percent), Massachusetts (2 percent), New Jersey (0 percent), and Pennsylvania (1 percent), have little or no funds set aside to finance the liability. Some other states, such as Alaska (funded at 50 percent), Arizona (69 percent), North Dakota (30 percent), Ohio (32 percent), Oregon (31 percent), Utah (22 percent) Virginia (26 percent), and Wisconsin (38) are doing a better job in funding the health care liability.

The Nelson A. Rockefeller Institute of Government at the University at Albany issued a fiscal brief on April 5, 2012 indicating that New York’s local governments face a series of key risks including those associated with financing the rising costs of employee benefits (Ward 2012). Earlier, Robert B. Ward of the Rockefeller Institute cautioned that employee benefits such as health care costs are one of the key elements
driving expenditures for local governments in New York State (Ward 2006). Also, the
problem of large health care liabilities and their negative effects on states and cities
continues to be highlighted in 2013 (Economist 2013).

This paper analyzes the accounting presentations made by several governments
and provides recommendations to improve financial reporting. The recommendations
include:

1. The amount of the GASB 45 liability is not presented in the columns of numbers
   for all governmental fund financial statements. While the liability is usually
   included on the government wide financial statements, it is not listed as a liability
   that reduces net assets in fund financial statements such as for the general fund.
   Rather, the liability is only reflected in reconciliations, Management’s Discussion
   and Analysis, the Notes to the Financial Statements, and Required Supplementary
   Information. A pro forma general fund financial statement should be presented in
   the Consolidated Annual Financial Report to better illustrate the effects of the
   GASB 45 liability on the amount of the fund balance.
2. The amount of the GASB 45 liability is presented as an aggregate number that
   applies to the future. It is often related to the amount of current payroll to illustrate
   the size of the liability. The presentation could be improved if investors and other
   financial statement users knew the approximate timing of when the costs would
   actually be paid. Since the bond rating firms view the GASB 45 liability as a form
   of long term debt, a schedule showing the amount of the liability due by year over
   the upcoming 10 year period should be included in the Consolidated Annual
   Financial Report. This should be shown by the major funds used by the
   governmental unit.

THE GASB 45 LIABILITY

Many state and local governments have entered into arrangements to provide
health care costs for current employees and retirees. These plans often have a
comprehensive array of costs including health care premiums, dental and vision plans, life
insurance, disability costs and long term care costs (Keating and Berman 2007). Often
these plans are referred to as other post employment benefit (OPEB) plans. Accounting
standards for these costs are outlined in GASB 45. In addition to GASB 45, the
Governmental Accounting Standards Board (GASB) issued a related statement for trust fund arrangements which accumulate costs for OPEB plans (GASB 2004a).

GASB has also issued a series of technical bulletins since 2004 to clarify the technical details of accounting for the health care liability.\(^3\) From a budgeting perspective it is important to recognize that GASB’s requirements concern financial disclosure and do not require the actual funding of OPEB plans. The GASB has no authority over budgeting and finance for governments and can’t require a governmental entity to finance a cost such as OPEB (Gauthier 2005). The accounting rules require state and local governments to begin reporting the OPEB liabilities beginning in 2007 for larger governments (Finkler et al. 2013). Most local governments have begun to report the GASB 45 liability as of 2013.

Other researchers are concerned that the OPEB health care liability represents a significant budgeting issue for state and local governments since the liability is not funded today (Coe and Rivenbark 2010, Bronner 2013). Governmental accounting provides a system where a trust fund can be used to accumulate funds to pay for the health care liability. Unfortunately, since the accounting rules do not require governments to fund the liability currently, many governments have chosen not to fund the OPEB obligation (Freeman et al. 2011). In some states, such as New York, state law provides no authority for local governments to accumulate moneys to finance the OPEB liability according to the Office of the New York State Comptroller (DiNapoli 2012).

A key element of GASB 45 is the requirement for governments to show the amount of health care costs the government has agreed to pay for current employees and

\(^3\)The full list of GASB 45 related documents list can be found at GASB.org under the GASB 45 project page.
for retired employees. The computation produces a metric called the Unfunded Accrued Actuarial Liability (UAAL) which shows the level of the liability in dollar terms (GASB 45 at 9). This liability reflects the results of a long term actuarial study projected for numerous years into the future.

The accounting rules currently in place require that the GASB 45 liability be listed as a liability in the government wide financial statements. For funds such as the general fund, the liability is not listed on the balance sheet as a liability but is included in an attached reconciliation statement. Governments report the liability in the footnotes to the financial statements and in other required supplementary information (GASB 45 at 16-20). These two sections of the financial statements are considered integral to the financial statements but they should be considered as explanatory notes. The outcome of the current GASB 45 reporting for local governments is that for the general fund, there is incomplete information reported for the liability. The liability itself is not always presented in the columns of numbers in the actual financial statements (GASB 45 at 143-62). The GASB 45 liability does not have to be included on the balance sheet for the general fund since most of the money will be paid in the future and will not have to be recorded today due to the use of modified accrual accounting.

Governmental accounting has instances where a long term liability which is not due today requires that the liability be presented in the fund financial statements. A good example of this type of accounting is GASB Statement No. 18 for post closure costs for governments operating a landfill (GASB 1993). In this type of governmental accounting a locality operating a landfill must show a liability on the balance sheet today indicating the amount that the locality must pay to close the landfill in the future. The liability must
be computed when the local government is collecting solid waste. That time frame may be several years before the facility is actually closed and when the funds are actually needed. An enterprise fund using accrual accounting mandates that the liability be included on the balance sheet now.

**GASB 45 REPORTING ISSUES**

GASB Statement 45 requires state and local governments to make a presentation outlining the amount of the liability and other information concerning the issue. There are two significant problems with the GASB 45 presentations including:

1. The amount of the GASB 45 liability is not presented in the columns of numbers for all governmental fund financial statements. While the liability is usually included on the government wide financial statements, it is not listed as a liability that reduces net assets in fund financial statements such as for the general fund. Rather, the liability is only presented in reconciliations, Management’s Discussion and Analysis, the Notes to the Financial Statements, and Required Supplementary Information.

2. The aggregate amount of the GASB 45 liability is presented as an aggregate number that applies to the future. The presentation could be improved if investors and other financial statement users knew the approximate timing of when the costs would actually be incurred.

The Governmental Accounting Standards Board issued Statement No. 34 *Basic Financial Statements and Management’s Discussion and Analysis—for State and Local Governments* in June 1999 (GASB 1999). Since that time, GASB has issued numerous updates and statements to clarify the GASB 34 requirements. The GASB 34 requirements and other governmental accounting statements have resulted in financial statement presentations that are unclear to many users. Walthers (2012) illustrated significant problems with the financial statements produced by state and local...
governments. The article illustrates several significant problems with financial reporting for state and local governments including:

1. In the case of Jefferson County, Alabama, which filed for bankruptcy protection in 2011, the financial presentations did not make clear the actual amount of financial stress that the county was incurring.
2. The financial reports issued by many governments are unclear and too complicated for some financial professionals to understand.
3. Most of the information in the CAFR is not forward looking.

Some financial statement users believe that the current set of GASB standards can be used by governments to make presentations which are unclear. For instance, the United States Securities and Exchange Commission produced two reports (2010, 2013) indicating how poor financial presentations occurred. These included:

1. A report for the State of Illinois in 2013 which indicated that improper financial disclosure was presented in the state’s Comprehensive Annual Financial Report (SEC 2013).
2. A report for the State of New Jersey in 2010 which indicated that improper financial disclosure was presented in the state’s Comprehensive Annual Financial Report (SEC 2010).

Both of the reports issued by the Securities and Exchange Commission illustrated how municipal bond investors were misled concerning pension liabilities due in part to issues concerning the quality of reporting in the CAFR.

Some research has shown that government-wide financial statements improve some elements of financial reporting (Johnson, Kioko and Hildreth 2012) because relatively consistent financial ratios can be developed for governments. The same research shows (at 94-95), however, that bond rating firms focus more on the general fund presentation than on the government wide financial statements. This is rational
since bond rating analysts often focus on the long term cash flows associated with specific debt instruments (Brealey, Myers and Allen 2011, Fabozzi 2013).

In addition to the issues associated with the State of Illinois and the State of New Jersey, Dolan (2013) indicated in July 2013 that the City of Detroit had assets of approximately $1 billion and liabilities of about $1 billion. In reality, the liabilities amounted to approximately $18 billion including a significant GASB 45 liability.

Another issue concerning the usefulness of the CAFR surfaced on July 19, 2013 when the Securities and Exchange Commission commenced legal action against the City of Miami in the United States District Court Southern District of Florida (SEC 2013). The legal complaint filed by the Securities and Exchange Commission contained the following language at page 1:

The City raised approximately $153.5 million from the investing public through bond offerings in May, July, and December 2009. In connection with these offerings, the City made numerous material misrepresentations and omissions to investors in the bond offering documents and the City’s Comprehensive Annual Financial Reports (“CAFRs”) concerning certain inter-fund transfers from its Capital Projects Funds to its general fund, including transfers of restricted fees. (Emphasis added).

These examples reinforce the idea that numerous governments are experiencing significant issues with their CAFR reporting.

One of the issues associated with GASB 45 concerns how the financial statements are produced. The GASB rules allow financial statements for the same government to be produced using different accounting rules. A financial transaction can occur and be reported differently depending which fund financial statement is being used. While the transaction may be included in one fund today, another set of financial statements for the same government will not be required to fully include the cost of the transaction. In
governmental accounting this is known was the dual perspective of accounting (Freeman et al. 2013 at 55 to 58).

It is important to recognize that governmental accounting has four basic ways to recognize any accounting transaction. The four methods are known as the basis of accounting (Freeman et al. 2013 at 35-41). This means that any transaction can be reflected in one of four ways and the GASB has developed rules for how all transactions should be recorded. The four types of basis of accounting are:

- The cash method or pay as you go accounting which assumes a transaction occurs only when it is paid in cash.
- Modified accrual accounting which considers short term modifications to cash accounting for items that have to be paid or recorded in about 90 days.
- Accrual accounting which examines the economic basis of a transaction and records it when an economic transaction occurs.
- The budgetary basis of accounting which assumes the transaction is placed in the budget using rules that may differ from the three other accounting methods.

It is important to understand that the basis of accounting for governmental budgeting is different from the basis of accounting for recording transactions on the books and records of local governments.

The dual perspective of accounting can be explained by making reference to the accounting rules developed by the GASB. The GASB has issued rules which allow governments to provide two basic sets of financial statements. These include government wide financial statements which include the accrual basis of accounting (GASB 34 at 9). All of the operations of the governmental unit are included in these financial statements and all transactions are presented using the accrual basis of accounting. The individual funds of the government such as the general fund or utility related enterprise funds present separate financial statements for the same entities included in the government
wide financial statements. For a general fund, a different basis of accounting known as modified accrual accounting is used in most cases (GASB 34 at p 29). Modified accrual accounting does not require the financial statements to subtract the GASB 45 liability from the net assets calculation. Rather, the liability is included in a reconciliation statement and explained in the Notes to the Financial Statements and in Required Supplementary Information for the general fund (GASB 34 at 29 and GASB 45 at 16-22).

The issues as to how the GASB 45 liability are to be presented is very complex even though the accounting rules of the Governmental Accounting Standards Board are being complied with. Simplification of the GASB 45 presentation would help investors and other financial statement users in understanding the real risk from the liability.

**BOND RATING AGENCY CONCERNS**

The major bond rating agencies have voiced concern over the financial issues associated with the GASB 45 liability for many years. The bond rating agencies continue to be concerned about the GASB 45 liability and they consider it a type of debt that should be imputed into any financial evaluation of a state or local government with a significant liability. Standard & Poor’s Corporation, in a document entitled “Criteria Governments U.S. Public Finance: U.S. State Ratings Methodology” considers the GASB 45 liability as part of the debt for state governments (Standard and Poor’s Corporation 2011). Moody’s Investors’ Service indicated in an April 2013 bond rating criteria analysis that the OPEB liability is a type of debt and is an important consideration in the bond rating process (Moody’s Investors Service 2013). During August 2013 Moody’s issued a request for comment concerning its rating criteria for general obligation bonds (New York State Government Finance Officers’ Association, Inc. 2013). They intend to
increase the weighting they use for debt and pensions to 20 percent from 10 percent. Fitch Ratings, in an evaluation dated April 4, 2012, shows that the debt level of a government is influenced by three items including the current debt service coverage, future capital needs, and “Pension & OPEB costs.” (Fitch 2012). A review of recent municipal bond ratings indicates that the management of the OPEB liability is an important consideration in the bond rating process.

The GASB 45 liability is similar to a pension liability that most state and local governments incur. Martell, Kioko, and Moldogaziev (2013) have illustrated that state governments bond ratings are negatively affected if the government has a low pension funding ratio. Given that most GASB 45 funding ratios are extremely low, it is reasonable to expect that the bond ratings of state and local governments are also negatively affected by the GASB 45 liability.

The accounting rules which guide the GASB 45 accounting disclosures present the amount of the GASB 45 liability today with a few years of historical data. Also, a metric showing the approximate size of the liability related to payroll is computed. If, for instance, we see that a government has a $10 billion OPEB liability and a $10 billion payroll today, a metric shows a 100 percent liability to payroll is computed. This tells us very little as to when the liability must be paid. The reporting model could be improved if we know when the $10 billion liability is due. The accounting reporting could be enhanced if a schedule showing 10 years of data for the future showing the approximate amount of the GASB liability which will have to be paid each year. This schedule should be easy to produce since an actuarial study showing the yearly cost is used to compute the GASB 45 liability. If a simple 10 year GASB 45 liability cash flow projection chart were
used it would be similar to a debt maturity schedule. The new data would really indicate if financial stress will be occurring during the next 10 year period.

GASB 45 PRESENTATIONS FOR MAJOR STATES AND CITIES

This section of the paper presents data for five large states including California, Florida, Illinois, New York and Texas. These states were chosen since they are the five largest states according to revenue (Nelson A. Rockefeller Institute of Government 2013). To provide a local government perspective on the issue, data is also presented for the cities of Indianapolis, Philadelphia, and Phoenix. These cities were not located in the five states being evaluated, and their selection was based on population. This also provides additional geographical diversity to the study.

State of California

A portion of the CAFR for the State of California for 2011 is attached as Appendix A. Pages 2-3 of this appendix shows the government wide Statement of Net Assets for 2011. Note that under the Primary Government (Governmental activities) category a $9.6 billion reduction in Net Assets is made for “Net other postemployment benefit obligation.” This amount is shown because the financial statement is produced using accrual accounting.

Page 4 of Appendix A shows the Balance Sheet for the general fund of the State of California. Note that under the “Liabilities” column there is no recognizable reduction in fund balance for the other postemployment benefit obligation. This accounting is proper since the financial statement uses modified accrual accounting and most of the

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4 Other large states such as Michigan, Ohio, Pennsylvania and New Jersey were examined for this study and the results were similar to those presented here.
GASB 45 liability is not due until future accounting periods. Page 5 of Appendix A includes a “Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.” This shows that for the governmental funds, there is a GASB 45 related liability amounting to $9.4 billion. We can’t find out which governmental fund this amount applies to. Also, the amount of the GASB 45 liability which applies to the general fund is not subtracted from the fund balance.

There are additional disclosures in the CAFR about the GASB 45 liability in the Management’s Discussion and Analysis, and the Notes to the Financial Statements which are an integral part of the financial statements. Also, the presentation of Required Supplementary Information provides additional details. This material does not clearly show the amount of the liability which applies to the general fund. Persons concerned about the finances of the State of California such as general obligation bond investors would be more informed if the amount of the GASB 45 liability was presented as it affects the fund balance for the general fund. A pro forma general fund balance sheet could be developed which begins with the balance sheet shown on page 4 of Appendix A. This pro forma financial statement could be adjusted to show the major items in the reconciliation material presented on page 5 of Appendix A. In the case of the State of California, this would result in a reduction of the reported positive fund balance of $10.8 billion to a negative amount of $10.5 billion. This includes other items in addition to the GASB 45 liability.

A second issue concerning the GASB 45 liability is when it is actually due. The actuarial projections often are computed for a period of 40 years or longer. Since a large portion of the liability may not occur until several years into the future, and since the bond
rating agencies view the liability as a form of debt, the financial presentation would be improved if we knew when the liability is most likely to become due. It would be helpful, for instance, if we knew the approximate amount of the liability which is due over the next ten years. This would allow investors to consider the dollar value of the liability in conjunction with the overall debt liability for the governmental unit.

**State of Florida**

Appendix B shows a portion of the CAFR for the State of Florida for 2012. Page 2 of Appendix B shows the Statement of Net Assets. Note that under the “Liabilities” section there is no clear reduction in Net Assets for the GASB 45 liability. There is a large reduction under the category “Due in more than one year” for $26.3 billion under the column of “Governmental Activities.” The GASB 45 liability is most likely included in this category.

The balance sheet for the State of Florida general fund is shown on page 3 of Appendix B. The fund balance amounts to $4.8 billion but there is no apparent reduction for the GASB 45 liability. Page 5 of Appendix B shows that there is a “Net other post employment benefits” reduction of $664 million in the reconciliation statement. The balance sheet for the State of Florida general fund would be enhanced if a pro forma balance sheet was presented to show the actual numbers for the general fund. Also the timing of the payment of the GASB 45 liability could be shown for the next ten years to improve the presentation.

**State of Illinois**

Appendix C contains the CAFR for the State of Illinois. Page 2 of Appendix C includes the Statement of Net Assets. Under the “Governmental Activities” column there
is no identifiable liability for the GASB 45 liability. There is a $61.1 billion reduction in net assets for an item referred to as “Long Term Obligations Due subsequent to one year.” This most likely includes Illinois’ GASB 45 liability. Page 3 of Appendix C shows a balance sheet for the general fund. This presentation includes no reduction in the general fund for the GASB 45 liability. Page 4 of Appendix C indicates that there is a $5.7 billion “net other postemployment benefit obligation.” It is difficult to identify how this liability affects the fund balance for the general fund.

**State of New York**

Appendix D contains the CAFR for the State of New York for the year ended March 31, 2012. Page 2 of Appendix D includes the Statement of Net Assets for New York. Under the “Governmental Activities” column there is a $10 billion GASB 45 liability. Page 3 of Appendix D shows a balance sheet for the general fund. This presentation includes no reduction in the general fund for the GASB 45 liability. Page 4 of Appendix D indicates that there is a $10.0 billion “other postemployment benefit” liability. It is difficult to identify how this liability affects the fund balance for the general fund. Like the presentations for the other states, we do not know how much of the liability will have to be paid during the upcoming ten year period.

**State of Texas**

Appendix E contains the CAFR for the State of Texas for 2012. Pages 2-3 of Appendix E include the Statement of Net Assets. Under the “Governmental Activities” column there is a zero amount shown under the “Net OPEB Obligation” and we can presume that none of the liability applies to the employees of the general fund. Page 4 of Appendix E shows a balance sheet for the general fund. This presentation includes no
reduction in the general fund for the GASB 45 liability. Page 5 of Appendix E indicates that there is no GASB 45 liability for the governmental funds in the State of Texas. This financial reporting appears to be less problematic for the State of Texas since the OPEB liability may not apply to the general fund employees. Rather, the OPEB liability is part of the Employees Retirement System of Texas which is a separate reporting entity. Some employees in the State of Texas reporting entity such as university employees are covered by the OPEB plan. There may be issues with other funds, however, and this issue is beyond the scope of this paper.

City of Indianapolis

Three city governments were also analyzed for this study to provide a local government perspective on the GASB 45 reporting issue. Appendix F shows a portion of the CAFR for the City of Indianapolis, Indiana for the year ended December 31, 2012. Page 2 -3 of Appendix F shows the Statement of Net Assets. Note that under the “Liabilities” section there is no clear reduction in Net Assets for the GASB 45 liability. There is a large reduction under the category “Due in more than one year” for $1.6 billion under the column of “Governmental activities.” The fourth page of Appendix E shows the balance sheet for the general fund. There is no amount for the GASB 45 liability listed. The fifth page of Appendix E provides reconciliation between the government wide financial statements and the governmental funds. The GASB 45 liability is not clearly presented in this schedule. Pages 6-7 of Appendix F show that there is a $144 million unfunded GASB 45 liability at year end 2012. It is unclear from the financial reporting how this liability affects the general fund for the City of Indianapolis and when the liability must be paid.
City of Philadelphia

Appendix G shows a portion of the CAFR for the City of Philadelphia, Pennsylvania for the year ended June 30, 2011. Page 2 of Appendix G shows the Statement of Net Assets. Note that under the “Liabilities” section there is no clear reduction in Net Assets for the GASB 45 liability. There is a large reduction under the category “Due in more than one year” for $4.7 billion under the column of “Governmental activities.” The third page of Appendix G shows the balance sheet for the general fund and a short list of reconciliation items. There is no amount for the GASB 45 liability listed under the general fund and the reconciliation does not show the GASB 45 liability. The fifth page of Appendix G indicates that the City of Philadelphia has a GASB 45 liability of $1.169 billion as of 2010. There is little information in this report to show how the liability affects the City of Philadelphia general fund and when the liability must be paid.

City of Phoenix

Appendix H shows a portion of the CAFR for the City of Phoenix, Arizona for the year ended June 30, 2012. Page 2 of Appendix H shows the Statement of Net Assets. Note that under the “Liabilities” section there is no clear reduction in Net Assets for the GASB 45 liability. The third page of Appendix H shows the balance sheet for the general fund. There is no amount for the GASB 45 liability listed. The fourth page of Appendix H provides reconciliation between the government wide financial statements and the governmental funds. The GASB 45 liability is presented as a minor liability of $808,000 in this schedule. Page 5 of Appendix H shows that there is a $1.1 billion unfunded GASB
liability at June 30, 2012. It is unclear from the financial reporting how this liability affects the general fund for the City of Phoenix and when the liability must be paid.

**SUMMARY AND RECOMMENDATIONS**

The information presented above shows that the liability for the GASB 45 related health care costs presents significant risk for state and local governments. Also, the paper illustrates that the reporting of the liability is often unclear which can lead to confusion by financial statement users. In particular, investors in general obligation bonds of state and local governments are often presented with a confusing GASB 45 disclosure presentation which fails to show the true status of the liability as to how it affects the general fund financial statements.

The issue concerning the inadequate disclosure of the GASB 45 health care liability is due to changes in the basis of accounting for the financial statements in some cases. In other cases, the liability is not clearly shown by the reporting entity. In order to help general fund bond investors understand the status of the GASB 45 liability and how it relates to the general fund, two recommendations are developed. These include:

1. The amount of the GASB 45 liability is not presented in the columns of numbers for all governmental fund financial statements. While the liability is usually included on the government wide financial statements, it is not listed as a liability that reduces net assets in fund financial statements such as for the general fund. Rather, the liability is only reflected in reconciliations, Management’s Discussion and Analysis, the Notes to the Financial Statements, and Required Supplementary Information. A pro forma general fund financial statement should be presented in the Consolidated Annual Financial Report to better illustrate the effects of the GASB 45 liability on the amount of the fund balance.
2. The amount of the GASB 45 liability is presented as an aggregate number that applies to the future. It is often related to the amount of current payroll to illustrate the size of the liability. The presentation could be improved if investors and other financial statement users knew the approximate timing of when the costs would actually be paid. Since the bond rating firms view the GASB 45 liability as a form of long term debt, a schedule showing the amount of the liability due by year over the upcoming 10 year period should be included in the Consolidated Annual Financial Report. This should be shown by the major funds used by the governmental unit.

These two recommendations are simple in nature and will enable financial statement users to better understand how the GASB 45 liability affects the specific financial statements they are interested in examining.
REFERENCES


