



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum # 2010-19 (Revision of 2010-1)

TO: Local Government Officials and Certified Public Accountants
FROM: Sharon Edmundson, Director, Fiscal Management Section
SUBJECT: Sample Journal Entries for OPEB Accounting: **Revision of Memo 2010-1**
DATE: November 2, 2009

NOTE: Revised areas are highlighted

The purpose of this memo is to provide sample journal entries for GASB Statements No. 43 and 45 for Other Postemployment Benefits (OPEB). The attached appendices cover scenarios for the initial year of implementation and common entries that might occur in following years. The scenarios include pay-as-you-go, fully and partially funded pension liability for both a general fund and a water sewer fund, and transactions with an OPEB trust. Under GASB Statements No. 43 and 45, Phase II units will be implementing for fiscal year beginning after December 15, 2007 and Phase III units will be implementing for the fiscal years beginning after December 15, 2008. As a side note, illustrations of OPEB Note Disclosure required by GASB Statements No. 43 and 45 are discussed in Memo #1107. These note disclosures are presented for the government as a whole.

Accounting for OPEB transactions begins at the fund level and should be allocated across funds and activities using a reasonable method; e.g. number of full-time positions per fund and then must be applied consistently. Accounting for governmental expenditures should be posted at a minimum to functions; e.g. General Government, Public Safety, Human Services, etc. Since in many cases proprietary funds are created for one function, an allocation below the fund level is optional.

Next, it must be determined if your local government has a qualified trust fund for OPEB. According to paragraph 4 of GASB Statement No. 43, a **qualified trust fund** is a fund in which the employer contributions to the plan are irrevocable; plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan (the agreement between the employer and its plan members and beneficiaries); and plan assets are legally protected from creditors of the employer or the plan administrator.

If your government funds their single employer plan, but **does not** meet the qualifications of a qualifying trust, then retiree health accounting and liabilities will *only* be reported in the governmental and proprietary funds and not in a trust fund. In this case, GASB Statement No. 45 will not give you credit for funding your plan and the end result will be pay-as-you-go accounting treatment with larger fund balances or designations for OPEB; but the OPEB liability will remain. If your government **has established** a qualifying trust, it would account and record

transactions in the governmental and/or proprietary fund(s) and in the qualifying trust fund. **Premium payments to retirees will be reported as an expenditure/expense in the fund statements from which they were paid. If payments are made directly from the Trust fund (which will be rare in these early days of the implementation) then those payments are shown as a deduction from the OPEB trust.** Please note that State law makes the State Treasurer's OPEB Trust Fund an irrevocable trust.

OPEB payments in governmental funds should be recognized when paid using modified accrual basis. Therefore, only amounts using expendable available resources should be recognized in governmental fund statements. OPEB expenses from proprietary and fiduciary funds should recognize expenses on the accrual basis in the fund statements. Government-wide statements use the accrual basis of accounting. Therefore, an adjustment for governmental funds will be made from modified-accrual to the accrual basis of accounting for the government-wide statements. If a unit of government decides to fund any portion of OPEB, these expenditures and/or expenses need to be budgeted in both governmental and proprietary funds. The following journal entries will help provide guidance for recording entries in the appropriate funds on the appropriate basis.

If you should have any question on accounting for OPEB, please contact Melinda Canady at 919-807-2384 or melinda.canady@nctreasurer.com, Amy Szalaj at 919-807-2385 or amy.szalaj@nctreasurer.com; or Sara Shippee at 919-807-2356 or sara.shippee@nctreasurer.com.

APPENDICES – OPEB SAMPLE JOURNAL ENTRIES

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Assumptions:

The City of Dogwood provides healthcare benefits as a single-employer defined benefit plan to cover retirees of the City who participate in the NC Local Governmental Employees' Retirement System and who have at least 15 years of creditable service with the City. The City obtained an annual actuarial report on the retiree health care plan; however, they have chosen not to fund the net OPEB obligation and only pay retiree premiums as they come due to the Insurance provider. Retiree health premiums are paid from the same fund with which the employee's salary was paid as an active employee. For purposes of the example, the City has retirees in the General Fund and the Water and Sewer Fund. Since the City did not fund their net OPEB obligation, the City did not set aside any OPEB investments to earn interest to offset OPEB expenses.

Description	Active Employees	Retired Employees	Amount	Annual OPEB Cost
General Fund	14	4	\$400 Premium	\$ 50,700
Water and Sewer Fund	4	1	\$400 Premium	14,300
Total	18	5		\$ 65,000

Journal Entries:

Account Name	Debit	Credit	Account Name	Debit	Credit
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Journal Entry #1- Entry to record payment of monthly premium to Insurance Provider for Retiree Health Plan.
 Entry is normally recorded in the fund (and function for governmental funds) for which employee retired.

<u>General Fund</u>			<u>Water and Sewer Fund</u>		
Retiree Health Care Exp.- General Govt	\$ 400		Retiree Health Care Exp.	\$ 400	
Retiree Health Care Exp.- Public Safety	800		Cash		\$ 400
Retiree Health Care Exp.- Transportation	400				
Cash		\$ 1,600			
<i>[number of retirees x monthly premium= 4x\$400]</i>			<i>[number of retirees x monthly premium= 1x\$400]</i>		

Journal Entry #2- Entry to record annual OPEB cost and liability at year-end.

<u>General Fund</u>	<u>Water and Sewer Fund</u> ◆◆
[N/A on governmental fund level]	Retiree Health Care Exp. \$ 9,500
	OPEB Liability \$ 9,500
	<i>[water and sewer fund's portion of ARC less payments made during year = \$14,300-(12x1x\$400)]</i>

Journal Entry #3- Workpaper entry to convert modified accrual fund statements to full accrual government-wide statements at year-end.

<u>Governmental Activity</u> ◆◆	<u>Business-type Activity</u>
Retiree Health Care Exp.- General Govt \$ 4,725	
Retiree Health Care Exp.- Public Safety 5,355	
Retiree Health Care Exp.- Transportation 17,892	[N/A currently at full-accrual]
Retiree Health Care Exp.- Econ. Dev. 818	
Retiree Health Care Exp.- Enviro. Prot. 977	
Retiree Health Care Exp.- Cultural & Rec 1,733	
OPEB Liability \$ 31,500	
<i>[general fund's portion of ARC less payments made during the year = \$50,700-(12x4x\$400)]</i>	

Key:

- ◆ The annual OPEB cost has been adjusted as required by the statement for interest and ARC adjustments. However in the first year, the annual OPEB cost will equal the ARC.
- ◆◆ The sum of the OPEB Liability entries should equal that which is presented in the note disclosure for the government as a whole.

Assumptions:

Carolina County provides health care benefits as a single-employer defined benefit plan to cover retirees of the County who participate in the NC Local Governmental Employees' Retirement System and have at least 15 years of creditable service with the County. The County obtains an annual actuarial report on the retiree health care plan. The County has previously set up an irrevocable trust. The County has a beginning net OPEB liability. Actual cash payments of the premiums for retirees are paid from the General Fund. For purposes of this example, Carolina County has retirees in the General Fund and the Water and Sewer Fund. In the fiscal year ended 2009, the County has chosen to partially fund 50% of the annual OPEB cost. In fiscal year ended 2010, the County's Board decides to fully fund the annual OPEB cost for the 2010 fiscal year and provide an additional \$100,000 to help offset liabilities generated from prior years' underfunding.

Please note that the annual OPEB cost will not equal the ARC if there is a beginning OPEB liability. Therefore, the interest expense and ARC adjustment will be computed to determine the annual OPEB cost as part of the actuarial valuation.

	Description	Active Employees	Retired Employees	Amount	Annual OPEB Cost	50% Annual OPEB Cost
2009:	General Fund	190	20	\$400 premium	\$ 2,157,800	\$ 1,078,900
	Water and Sewer Fund	53	4	\$400 premium	843,600	421,800
	Total	243	24		\$ 3,001,400	\$ 1,500,700

	Description	Active Employees	Retired Employees	Amount	Annual OPEB Cost	100% Annual OPEB Cost Plus \$100,000
2010:	General Fund	190	20	\$400 premium	\$ 2,213,800	\$ 2,292,800
	Water and Sewer Fund	53	4	\$400 premium	953,200	974,200
	Total	243	24		\$ 3,167,000	\$ 3,267,000

Journal Entries:

Account Name	Debit	Credit	Account Name	Debit	Credit	Account Name	Debit	Credit
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Year 2009:

Journal Entry #2009-01- Entry to record monthly premium payments to health care provider.
 General Fund wrote the check and the expenditures/expense is normally recorded in the funds (and function for governmental funds) for which employee retired.

General Fund		Water and Sewer Fund		OPEB Trust Fund	
Retiree Health Care Exp.- General Govt	\$ 15,600	Retiree Health Care Exp.	\$ 22,800		
Retiree Health Care Exp.- Public Safety	16,400	Due to General Fund		\$ 22,800	[N/A]
Retiree Health Care Exp.- Transportation	2,400				
Retiree Health Care Exp.- Econ. Dev.	4,000				
Retiree Health Care Exp.- Human Serv.	40,800				
Retiree Health Care Exp.- Cultural & Rec	4,800				
Due from Water and Sewer Fund	22,800				
Cash					
	\$ 106,800				

[monthly healthcare expense paid by the General Fund]

[check written to healthcare provider for monthly coverage =267 employees x \$400 monthly premium]

Journal Entry #2009-02- Entry to record the portion of 50% funding of the 2009 annual OPEB cost less premium payments made during the year. Cash paid across funds.

General Fund		Water and Sewer Fund		OPEB Trust Fund	
Retiree Health Care Exp.- General Govt	\$ 7,846	Retiree Health Care Exp.	\$ 148,200	Cash	\$ 219,100
Retiree Health Care Exp.- Public Safety	22,348	Cash	\$ 148,200	Employer Contribution- GF	\$ 70,900
Retiree Health Care Exp.- Transportation	14,483			Employer Contribution- WSF	148,200
Retiree Health Care Exp.- Econ. Dev.	3,454				
Retiree Health Care Exp.- Human Serv.	15,678				
Retiree Health Care Exp.- Cultural & Rec	7,091				
Cash	\$ 70,900				

[WSF's portion of 50% of the annual OPEB cost less payments made during year = \$421,800-\$273,600]

[record remaining funding contribution from commitment to fund 50% of the 2009 annual OPEB cost. General Fund's portion = \$1,078,900 - 1,008,000 = \$70,900.]

<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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Journal Entry #2009-03- Entry to record the Water and Sewer Fund's remaining OPEB cost and liability for the 2009 year for full-accrual accounting.

<u>General Fund</u>	<u>Water and Sewer Fund</u>	<u>OPEB Trust Fund</u>
[N/A]	Retiree Health Care Exp. \$ 421,800 OPEB Liability \$ 421,800	[N/A]
	<i>[Remaining 50% of WSF's annual OPEB cost]</i>	

Journal Entry #2009-04- Workpaper entry to convert modified accrual fund statements to full accrual government-wide statements at year-end.

<u>Governmental Activity</u>	<u>Business-type Activity</u>	<u>OPEB Trust Fund</u>
Retiree Health Care Exp.- General Govt \$ 195,046 Retiree Health Care Exp.- Public Safety 219,148 Retiree Health Care Exp.- Transportation 43,283 Retiree Health Care Exp.- Econ. Dev. 51,454 Retiree Health Care Exp.- Enviro. Prot. 505,278 Retiree Health Care Exp.- Cultural & Rec 64,691 OPEB Liability \$ 1,078,900	[N/A currently at full-accrual]	[N/A]
<i>[Remaining 50% of GF's annual OPEB cost]</i>		

<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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Year 2010:

Journal Entry #2010-01- Entry to record monthly premium payments to health care provider.
General Fund wrote the check and the expenditures/expense is normally recorded in the funds (and function for governmental funds) for which employee retired.

<u>General Fund</u>			<u>Water and Sewer Fund</u>			<u>OPEB Trust Fund</u>		
Retiree Health Care Exp.- General Govt	\$ 15,600		Retiree Health Care Exp.	\$ 22,800				
Retiree Health Care Exp.- Public Safety	16,400		Due to General Fund		\$ 22,800			[N/A]
Retiree Health Care Exp.- Transportation	2,400							
Retiree Health Care Exp.- Econ. Dev.	4,000							
Retiree Health Care Exp.- Human Serv.	40,800							
Retiree Health Care Exp.- Cultural & Rec	4,800							
Due from Water and Sewer Fund	22,800							
Cash		\$ 106,800						
<i>[check written to healthcare provider for monthly coverage =267 employees x \$400 monthly premium]</i>			<i>[monthly healthcare expense paid by the General Fund]</i>					

Journal Entry #2010-02- Entry to record the remaining commitment to fund 100% of the 2010 annual OPEB cost and an additional \$100,000.

<u>General Fund</u>			<u>Water and Sewer Fund</u>			<u>OPEB Trust Fund</u>		
Retiree Health Care Exp.- General Govt	\$ 142,180		Retiree Health Care Exp.	\$ 700,600		Cash	\$ 1,985,400	
Retiree Health Care Exp.- Public Safety	404,975		Cash		\$ 700,600	Employer Contribution- GF		\$ 1,284,800
Retiree Health Care Exp.- Transportation	262,451					Employer Contribution- WSF		700,600
Retiree Health Care Exp.- Econ. Dev.	62,591					<i>[WSF's portion of 100% of the annual OPEB cost and an additional \$21,000 less premium payments made during year = \$974,200-\$273,600]</i>		
Retiree Health Care Exp.- Human Serv.	284,106							
Retiree Health Care Exp.- Cultural & Rec	128,498							
Cash		\$ 1,284,800						
<i>[record funding contribution from commitment to fund 100% of the 2010 annual OPEB cost and an additional \$79,000 less premium payments made during the year = \$2,292,800-1,008,000= \$1,284,800.]</i>								

Assumptions:

This local government has previously set up an irrevocable trust, obtains an annual actuarial report on the retiree health care plan and has chosen to fund the annual OPEB cost. (Please note that the standards allow biennial and triennial valuations based on plan membership.)

Journal Entries:

<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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Journal Entry #1- Entry to record monthly interest, related to OPEB cash and investments.

	<u>OPEB Trust Fund</u>	
Cash	\$ 100	
Interest Income		\$ 100

Journal Entry #2- Entry to record administrative expenses for actuarial study.

	<u>OPEB Trust Fund</u>	
Administrative Exp.	\$ 2,800	
Cash		\$ 2,800