Issued Date: September 2019

Financial Reporting for Pensions and Other Post-Employment Benefits

ACCOUNTING BRIEF #24

GOVERNING REGULATIONS AND GUIDANCE

1. Generally Accepted Government Accounting Standards (GASB) No. 68, Accounting and Financial Reporting for Pensions; and, No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.
2. Generally Accepted Government Accounting Standards (GASB) No. 75*,* Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.
3. Uniform Financial Reporting Standards – 24 CFR part 5 subpart H
4. Public Housing Operating Fund Program Final Rule 24 CFR 990

SUMMARY

GASB 68, Accounting and Financial Reporting for Pensions, and GASB 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, were adopted to increase accountability and decision-making ability of contributing employers. **The goal of these pronouncements** is to streamline the reporting of financial information related to defined benefit pension plans and other postemployment benefits by standardizing the methods and assumptions used to measure and recognize the Net Pension Liability and/or Net OPEB Liability (NPL & NOL), deferred outflows of resources, deferred inflows of resources, and plan expense. These pronouncements also require specific note and supplementary information disclosures that increase the comparability and usability of employer's year-end financial statements.

This accounting brief aims to provide users with a framework to book and report these postemployment obligations on the Financial Data Schedule (FDS) accurately and to provide clarification on how that related financial data is impacted. The goal of this brief is to:

1) Provide background information for the issuance of GASB 68 & 75 and discuss the key concepts associated with each pronouncement.
2) Provide users guidance on the annual adjustments needed to report the net benefit liabilities[1], deferred outflows, deferred inflows, and plan expenses on the FDS accurately.
3) Provide guidance on how to allocate this financial information over various programs.
4) Deliver clarification on the booking of a positive net benefit liability (asset).

[1] The term "Net Benefit Liability" will be used interchangeably between "Net Pension Liability" and "Net OPEB Liability" unless otherwise stated.

5) Discuss the need for prior period adjustments and when they are appropriate for inclusion in the financial statements.
6) Discuss issues regarding timing of the actuarial valuation and FDS submission.

BACKGROUND

GASB 67 & 68 were released in June of 2012 with an effective date for fiscal years beginning after June 15, 2014. GASB 74 & 75 were released in June of 2015 with an effective date for fiscal years beginning after June 15, 2017. GASB 67 & 74 are focused towards the plan administrator while GASB 68 & 75 are focused on the employer. Due to this, employers will typically refer to GASB 68 & 75 when preparing their year-end financial statements and FDS. As will be described later in this notice, the accounting treatment between the two pronouncements is similar in nature and identical in most cases.

GASB 68 replaces Statements No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, for pensions that are administered as trusts or equivalent arrangements. The main difference for employers is that GASB 68 establishes new standards for measuring and recognizing the net pension liability, deferred outflows and inflows of resources, and plan expense. Previously the present value of future benefit payments was not recognized on the balance sheet of the employer. Changes to the related note disclosures and supplementary information have also been enacted.

GASB 75 replaces Statement No. 45, Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions, and Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. Similar to GASB 68, the main difference in the new pronouncements is in the measurement of the net OPEB liability, deferred outflows and inflows of resources, and plan expense. Although employers were already required to recognize a portion of the present value of these payments on their balance sheet, previously called the unfunded accrued liability, this pronouncement requires the present value to be calculated in a more standard manner explained below. This is in an effort to increase comparability and to assist the reader of financial statements in decision making. Changes to the related note disclosures and supplementary information have also been enacted.

<u>Both GASB 68 & 75 require that the net benefit liability be measured as the portion of the present value of the projected benefit payments to be provided to current active and inactive employees;</u> this portion is attributed to those employees' past periods of service, less the amount of the plan's fiduciary net position.

As mentioned previously the accounting treatment of both pronouncements is strikingly similar for employers as is the entry in the FDS. Each pronouncement requires similar disclosures and supplementary information that is intended to provide clarity to annual plan valuation changes. As the focus of this accounting brief is the reporting and impact of these pronouncements on the general ledger and the FDS, it will not go into the specific note disclosures required for audit reports.

KEY CONCEPTS AND TERMINOLOGY

A key step to understanding the pronouncements is to understand the difference between a defined benefit plan and a defined contribution plan. A defined benefit plan pays out a specific amount upon retirement based upon contractual obligations between the employer and the retiree. This amount

can be based on salary, years of service, or any number of variables. Defined contribution plans on the other hand are primarily funded by the employee with eligible contributions being made by the employer. With a defined contribution plan there is a set percentage contribution based upon qualifying wages earned for the period. The contribution is usually made by the employer and a portion by the employee. The contribution percent will not change based upon the fair value of the retirement assets. There is no future liability associated with defined contribution plans as the risk of the investments remains with the employee. The risk with defined benefit plans, however, remains with the employer and thus should be recognized on the financial statements. A defined benefit plan will therefore change the percentage of contribution annually based upon value of the retirement assets when compared with the present value of the pension obligation.

When it has been confirmed that a defined benefit plan exists, an actuarial valuation should be done to determine the year-end adjustments necessary to state the financial statements accurately as well as to determine the disclosures necessary for the audit report. To correctly implement GASB 68 & 75 it is important for the employer to understand the key information presented in the actuarial valuation. The section "Allocation Method and Rationality" on the next page assists the reader with this process.

The first step in implementing the information found in the report is to recognize the difference between a plan's valuation date, measurement date, and reporting date.

> **Valuation date –** The date as of which an actuarial valuation was performed for the plan
> **Measurement date –** The date as of which the net benefit liability was measured
> **Reporting date –** The plan and/or employer's fiscal year end reporting date

For financial reporting purposes, both GASB 68 and 75 require employers to recognize the net benefit liability as of the plan's measurement date. This measurement date must be within one year of the employer's reporting fiscal year end date. Additionally the plan's valuation date must be within thirty months and one day of the employer's fiscal year end date. Plan providers are required to perform an actuarial valuation once every twenty-four months per GASB 67 and GASB 74 which satisfies this requirement.

The second step is to understand the concept of deferred outflows and inflows of resources. Per GASB 68 and 75, changes in the net benefit liability not included in pension expense are required to be reported as deferred outflows or inflows of resources. The changes in valuation that make up these deferrals are related to the following:

- **Difference between actual and expected experience:** Calculated as the difference between expected assumptions and actual results. An example of this would be mortality rates differing from the experience study used for the actuarial valuation.
- **Changes in assumptions or other inputs:** Defined as the changes in assumptions from prior valuations.
- **Net difference between projected and actual plan earnings:** Represents the differences between actual earnings on plan investments and expected earnings.

Deferred outflows and inflows of resources attempt to smooth the above differences over a period of five to seven years. This enhances consistency and comparability between reporting periods and lessens the effect of unexpected changes in the marketplace. Deferred Outflows are presented as a debit balance and deferred inflows are presented as a credit balance.

The third step is to understand the concept of employer contributions subsequent to the measurement date of the net benefit liability. GASB 68 and 75 require that employer contributions subsequent to the measurement date of the net benefit liability be recognized as deferred outflows of resources. These should be credited from expenses and debited to deferred outflows as will be illustrated in this brief.

Finally, it is important to understand when prior period adjustments are appropriate for recognition in the financial statements. In the year of implementation, prior period adjustments should be used to recognize the prior year liability as if it had always been included in the financial statements[2]. This enhances comparability and smooths the financial impact of the implementation of GASB 68 and 75 to the financial statements.

ALLOCATION METHOD AND RATIONALITY

Housing authorities are required to establish rational allocation methods of costs incurred to managed programs[3]. The guidance provided to housing authorities is based upon the framework provided in the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200)*. The allocation of costs to each federal program should be "fair and reasonable". It is good accounting internal control to periodically review the cost allocation method used to consistently comply with the regulatory cost reasonableness requirement. GASB 68 and 75 are alike in this regard in that their cost allocations are also subject to change and should be reviewed in a timely manner by the housing authority.

When changing allocation methods of recognized net benefit liabilities, it is good business practice to document the reasonableness of the allocation method.

Examples of reasonable allocation methods for GASB 68 and 75 obligations include the following:

1) According to employer contributions paid over time from each program.
2) According to the number of units managed per program (however, for a Housing Choice Voucher Program the administrative burden by unit is usually less than a Public Housing Program).
3) According to salaries paid or effective labor burden charged per program.
4) According to employee headcount per program.

IMPLEMENTATION AGENCY-WIDE

The below example demonstrates Somewhere Housing Authority with a FYE December 31, 2018, recognizing its share of net OPEB liability for the first year using GASB 75. Note that the accounting for this is identical to that of GASB 68 after substituting the Net Pension Liability for the Net OPEB Liability.

[2] See GASB 68 and GASB 75 "Effective Date and Transition" section
[3] Code of Federal Regulations Title 2, Part 200, Subpart E – Cost Principles

Somewhere Housing Authority
Implementation of GASB 75
For the Year Ending December 31, 2018

	2016	2017
Valuation date:	1/1/2016	1/1/2017
Measurement date:	12/31/2016	12/31/2017
Report date:	12/31/2017	12/31/2018
Net OPEB Liability:	$ 90,000	$ 100,000
Deferred outflows of resources:	$ 800	$ 1,000
Deferred inflows of resources:	$ 600	$ 500
Employer contributions subsequent to the measurement date	$ 400	$ 700

The **measurement date** used in the example is December 31, 2017. As this is within a year of the reporting date of the housing authority, it is in compliance with the pronouncement. Since there is a year difference in the measurement date and the reporting date, the subsequent employer contributions to the plan should be recognized in deferred outflows. Since this is the first year of implementation, a prior period adjustment is recognized to display the financial statements as if the liability had always been recognized. The agency-wide financial adjustment for December 31, 2018 would be as follows:

Journal Entry #1 - Agency-wide

FDS Line	Line Items	DR	CR
357	Net OPEB Liability		100,000
200	Deferred outflows of resources	1,700	
400	Deferred inflows of resources		500
91500/94500	Employee benefits	9,400	
11040	Prior period adjustment	89,400	

The above journal entry recognizes the actuarially determined valuation of the Net OPEB Liability, deferred outflows of resources, and deferred inflows of resources at the measurement date of December 31, 2017. The employee benefits amount of $9,400 represents the annual change from the prior period to the current reporting period. The prior period adjustment amount of $89,400 represents the amount that would have been booked in the previous period had GASB 75 been implemented at that point in time. This can be further illustrated in the following chart:

Chart #1 - Journal Entry #1 - Illustrated

Line Items	Activity	2017	2018	Change
Net OPEB Liability:	Increase (credit)	$ 90,000	$ 100,000	$ 10,000
Deferred outflows of resources:	Increase (debit)	800	1,000	(200)
Deferred inflows of resources:	Decrease (debit)	600	500	(100)
Employer contributions subsequent to the measurement date	Increase (debit)	400	700	(300)
Net Position Effect - Total		$ 89,400	$ 98,800	$ 9,400

As the amount of credits ($10,000) is greater than the amount of debits ($600), the resulting debit to employee benefits is $9,400. The prior period adjustment of $89,400 can also be seen as the net result of prior period entries had GASB 75 been implemented at that point in time.

IMPLEMENTATION WITH MULTIPLE FEDERAL PROGRAMS

The above journal entry was shown as an agency-wide adjustment. When there are various programs to report on the FDS, then the plan adjustments should be allocated to each program based on a reasonable methodology determined by the housing authority. No matter which methodology is chosen it should be reevaluated on a timely basis for continued reasonableness of conclusions.

For purposes of this example the allocation method used will be the percentage of contributions paid from each major business segment or program during the reporting period. Also, bear in mind that the allocation percentage can be impacted by historic asset management accounting. According to the HUD Supplement for asset management, the agency is allowed to fund “legacy liabilities” from public housing programs. A legacy liability is one that would have existed prior to asset management adoption so it is not for employees added after the implementation date of asset management.

For this example, Somewhere Housing Authority reports three business segments or programs on the FDS. These programs are Low Rent Public Housing, Housing Choice Voucher, and Business Activities. For the Year Ending December 31, 2018, Somewhere Housing Authority paid employer contributions in the amount of $700 to its OPEB plan. The allocations are presented as such:

Somewhere Housing Authority
Employer Contributions Allocation
For the Year Ending December 31, 2018

Program	Amount	Allocation
Low Rent Public Housing	$ 350	50.000%
Housing Choice Voucher	250	35.714%
Business Activities	100	14.286%
Total Contributions	$ 700	100.000%

The adjustments below illustrate the year of implementation at December 31, 2018:

Journal Entry #1 - Per Allocation Chart

FDS Line	Line Items	DR	CR
Low Rent Public Housing			
357	Net OPEB Liability		50,000
200	Deferred outflows of resources	850	
400	Deferred inflows of resources		250
91500/94500	Employee benefits	4,700	
11040	Prior period adjustment	44,700	
Housing Choice Voucher			
357	Net OPEB Liability		35,714
200	Deferred outflows of resources	606	
400	Deferred inflows of resources		180
91500/94500	Employee benefits	3,360	
11040	Prior period adjustment	31,928	
Business Activities			
357	Net OPEB Liability		14,286
200	Deferred outflows of resources	244	
400	Deferred inflows of resources		70
91500/94500	Employee benefits	1,340	
11040	Prior period adjustment	12,772	
TOTAL			
357	Net OPEB Liability		100,000
200	Deferred outflows of resources	1,700	
400	Deferred inflows of resources		500
91500/94500	Employee benefits	9,400	
11040	Prior period adjustment	89,400	

As seen in the total figure at the bottom of the chart, the allocated adjustments total to the same agency-wide adjustments illustrated previously on page 5. Low Rent Public Housing recognizes half of the agency-wide adjustment due to the higher contribution percentage that it pays into the OPEB plan. Housing Choice Voucher and Business Activities are allocated the rest of the amount based on the rational methodology used by the housing authority.

Annual Adjustments After the Year of Implementation

After the implementation year, the net benefit liability, deferred outflows and inflows of resources, and plan expenses will require annual adjustments due to the revaluation of retirement obligations and changing assumptions. These annual valuations will be gathered and posted much in the same way that the initial implementation was carried out. To illustrate the similarity in accounting procedures this section will focus on the roll forward of a GASB 68 net pension liability. Somewhere Housing Authority's actuarial valuation for its postemployment plan for the Period Ending December 31, 2019 can be found below.

Somewhere Housing Authority Annual Adjustments - GASB 68 For the Year Ending December 31, 2019				
Valuation date:		1/1/2017		1/1/2018
Measurement date:		12/31/2017		12/31/2018
Report date:		12/31/2018		12/31/2019
Net Pension Liability:	$	100,000	$	112,000
Deferred outflows of resources:	$	1,000	$	2,000
Deferred inflows of resources:	$	500	$	800
Employer contributions subsequent to the measurement date	$	700	$	2,700

Since this example is using GASB 68, the Net OPEB Liability has now been referred to as a Net Pension Liability. As the liability was measured as of December 31, 2018 and the reporting period is December 31, 2019, the full amount of subsequent employer contributions will be added to the deferred outflow balance. The annual agency-wide adjustments will be as follows:

Journal Entry #2 - Agency-wide			
FDS Line	Line Items	DR	CR
357	Net Pension Liability		12,000
200	Deferred outflows of resources	3,000	
400	Deferred inflows of resources		300
91500/94500	Employee benefits	9,300	

After the implementation year, the prior period adjustment line is no longer present. The impact of GASB 68 in the second year of implementation will now flow through the employee benefit expense lines on the financial statements and the FDS allocated accordingly between admin, maintenance, etc. This annual adjustment is further illustrated below:

Chart #2 - Journal Entry #2 - Illustrated

Line Items	Activity	**2018**	**2019**	**Change**
Net Pension Liability:	Increase (credit)	$ 100,000	$ 112,000	$ 12,000
Deferred outflows of resources:	Increase (debit)	1,000	2,000	(1,000)
Deferred inflows of resources:	Increase (credit)	500	800	300
Employer contributions subsequent to the measurement date	Increase (debit)	700	2,700	(2,000)
Net Position Effect - Total		$ 98,800	$ 108,100	$ 9,300

As presented in the agency-wide journal entry on the previous page, the $9,300 change to the postemployment plan valuation will flow through the expense lines on the FDS. For operating budget planning, the housing authority should consider a contingency for annual GASB 68/75 employee benefits adjustments.

Annual Adjustments with Multiple Programs

When multiple programs are present, the housing authority should allocate the impact of the annual adjustment in a rational manner. Since there is no industry standard for allocating the plan benefit obligations, the housing authority should select a methodology that is reasonable for its circumstances. An example is the method used in this brief which is the annual employer contribution amount to postemployment plans. This method should be reevaluated timely to check for consistency in the conclusion basis. Somewhere Housing Authority's employer contributions for December 31, 2019 are broken down as such:

Somewhere Housing Authority
Employer Contributions Allocation
For the Year Ending December 31, 2019

Program	Amount	Allocation
Low Rent Public Housing	$ 1,350	50.000%
Housing Choice Voucher	964	35.714%
Business Activities	386	14.286%
Total Contributions	$ 2,700	100.000%

The annual journal entry to post valuation changes in the postemployment plan are as follows for December 31, 2019:

Journal Entry #2 - Per Allocation Chart

FDS Line	Line Items	DR	CR
Low Rent Public Housing			
357	Net Pension Liability		6,000
200	Deferred outflows of resources	1,500	
400	Deferred inflows of resources		150
91500/94500	Employee benefits	4,650	
Housing Choice Voucher			
357	Net Pension Liability		4,286
200	Deferred outflows of resources	1,072	
400	Deferred inflows of resources		106
91500/94500	Employee benefits	3,320	
Business Activities			
357	Net Pension Liability		1,714
200	Deferred outflows of resources	428	
400	Deferred inflows of resources		44
91500/94500	Employee benefits	1,330	
TOTAL			
357	Net Pension Liability		12,000
200	Deferred outflows of resources	3,000	
400	Deferred inflows of resources		300
91500/94500	Employee benefits	9,300	

Note the agreement of the total at the bottom with the agency-wide journal entry prepared for Somewhere Housing Authority on page 8.

Booking the Net Benefit Liability When It Is An Asset

When a plan is historically funded at the correct level or has been overfunded, there is a possibility that the net benefit liability will be booked as an asset. This is due to the fiduciary net assets of the plan exceeding the total actuarial accrued pension or OPEB liability. When this happens, the net benefit liability has a debit balance as opposed to a credit balance. It is now a net benefit asset. The below actuarial valuation for Border Housing Authority illustrates a net pension asset held by the fiduciary at December 31, 2019.

Border Housing Authority Annual Adjustments - GASB 68 - Net Benefit Liability is an Asset For the Year Ending December 31, 2019		
Valuation date:	1/1/2017	1/1/2018
Measurement date:	12/31/2017	12/31/2018
Report date:	12/31/2018	12/31/2019
Net Pension Asset:	$ 200,000	$ 265,000
Deferred outflows of resources:	$ 9,000	$ 12,000
Deferred inflows of resources:	$ 3,600	$ 4,400

The net pension asset increased by $65,000 from the previous year. Therefore, for December 31, 2019 the annual agency-wide journal entry would be as follows:

Journal Entry #3 - Agency-wide			
FDS Line	Line Items	DR	CR
174	Net Pension Asset / Other Asset	65,000	
200	Deferred outflows of resources	3,000	
400	Deferred inflows of resources		800
91500/94500	Employee benefits		67,200

As illustrated the accounting entries for the deferred outflows and inflows of resources are the same. Since the net pension liability was booked as an asset, however, the employee benefits have been decreased to show the overfunded status of the postemployment plan.

At December 31, 2019 Border Housing Authority should also restrict the $265,000 net pension asset to net position line 511.4, Restricted Net Position. As this represents an asset with an outside-imposed restricted purpose, the correct accounting treatment would be to move the net pension asset from the unrestricted net position line.

RECOGNITION OF PRIOR PERIOD ADJUSTMENTS

Prior period adjustments should only be used in a handful of situations concerning GASB 68 & 75. This accounting brief covered one of the situations above in that the initial implementation should be accompanied by a prior period adjustment. This is due to the housing authority retroactively recognizing their share of the postemployment benefit plan.

Prior period adjustments should also be recognized if it is discovered that an error occurred in the prior period concerning the valuation of the plan. This is consistent with GAAP concerning the correction of prior period inaccuracies.

Changes in allocation method should typically be booked using FDS line 11040, equity transfers. As this is not the correction of an error but the strategic decision of management to allocate their share

of the postemployment plan differently, this would not fit the definition of a prior period correction of an error. This has been expanded upon briefly on page 14 of this brief.

Actuarial Valuation Not Prepared In Time For Year End Audit

Due to the complexity of the actuarial valuation of defined benefit plans, there are times when a housing authority may not receive a copy of the actuarial valuation in time for their year-end audit report. In this situation, the auditor may issue a qualified opinion or a disclaimer of opinion.

A qualified opinion could be issued through a material misstatement in the financial statements due to not having the necessary information on hand to verify the net benefit liability amount. A disclaimer of opinion could be issued when an auditor cannot or has not been allowed to complete all planned audit procedures and, as such, cannot issue an opinion on the financial statements. In this case, the auditor cannot issue an opinion because of the scope limitation of not having an actuarial valuation done for the plan with a measurement date within a year of the client's reporting date. For housing authorities that report OPEB plans under GASB 75, there is an alternative valuation method described in GASB 75 that can be used in lieu of an actuarial valuation. The following considerations should be taken into account for this:

1) This alternative valuation method can only be used when a housing authority has under 100 employees (active and inactive) participating in an OPEB plan[4].
2) The calculation is complicated as it requires use of historical and/or future data trends to assign a net actuarial present value to future benefit payments.
3) If the alternative valuation method is used it should then be used regularly for reporting periods going forward to remain consistent.

If there is a timing delay and the PHA receives a qualified opinion for not having the current plan information, then the PHA should report this on the FDS submission. Extension requests will not be granted by HUD due to delays in receiving the plan information. The PHA may appeal penalties resulting from findings due to the aforementioned timing conflicts.

What If… The Measurement Date Is At A Different Point In The Fiscal Year?

In previous examples the measurement date of the net benefit liability has been exactly one year behind the PHA's fiscal year end reporting date. It is common that this is not the case and that the measurement date can fall somewhere in the middle of the fiscal year. In cases such as this it should be noted that employer contributions subsequent to the measurement date for defined benefit plans should be shown as deferred outflows of resources. This is illustrated in the following example for Southern Housing Authority:

[4] See GASB 75 paragraph 224 for more information regarding the alternative measurement method

Southern Housing Authority Implementation of GASB 68 With a Different Year End For the Year Ending June 30, 2018		
Valuation date:	12/31/2016	12/31/2017
Measurement date:	12/31/2016	12/31/2017
Report date:	6/30/2017	6/30/2018
Net Pension Liability:	$ 90,000	$ 100,000
Deferred outflows of resources:	$ 800	$ 1,000
Deferred inflows of resources:	$ 600	$ 500
Employer contributions July - December	$ 450	$ 600
Employer contributions January - June	500	700
Total Impact of Implementation	$ 89,300	$ 98,800

Note that the valuation date and the measurement date are the same; however the fiscal year end date for the PHA is 6/30/2018. For this reason employer contributions for January 2018 and June 2018 should be shown as deferred outflows of resources. To book the implementation of GASB 68 the PHA would post the following entry:

Journal Entry #4 - Agency-wide

FDS Line	Line Items	DR	CR
357	Net Pension Liability		100,000
200	Deferred outflows of resources	1,700	
400	Deferred inflows of resources		500
91500/94500	Employee benefits	9,500	
11040	Prior period adjustment	89,300	

The remaining $600 of employer contributions not booked to deferred outflows continue to remain in the expense accounts.

WHAT IF… THE HOUSING AUTHORITY UNDERGOES A RAD CONVERSION

The Rental Assistance Demonstration (RAD) is a way that public housing authorities convert existing public housing stock to project-based voucher or project based rental assistance units to leverage third party capital for modernization and development needs of the housing authority. The conversion can range from retaining ownership of the units, disposing units to a component unit, or even disposing them to an unrelated party

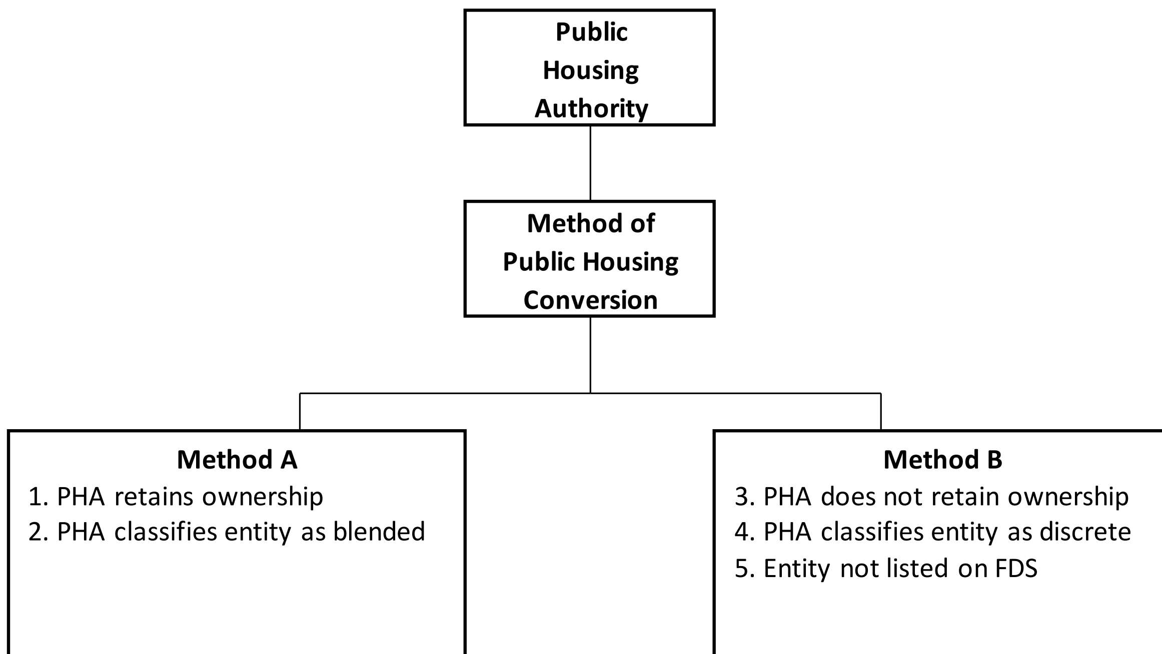
When the ownership of the converted units are retained or moved to a controlled component unit (blended component unit), the application of GASB 68 and 75 does not change. However, when the

units are disposed to a discrete component unit or a third-party investor, the application of GASB 68 and 75 can change depending on the nature of the operating agreement with the entity.

If the housing authority sells the public housing units to an uncontrolled third party but retains management of the sold units, and is reimbursed for their employees' allocated time managing these units through an operating agreement, the only way to recover the costs of a pension plan or postemployment benefit plan is to increase the management fee charged to the owner entity.

The chart below illustrates two accounting concepts:

Method A: Allocate a percentage of the net benefit liability to the program/entity based on direct labor burden.
Method B: Allocate a reasonable % to the postemployment plan owner and make sure the annual management fee is adequate to cover the cost of the benefit.



WHAT IF… A PROGRAM WITH A POSTEMPLOYMENT BENEFIT ALLOCATION ENDS

What happens when a program that previously received an allocation of a net benefit liability ceases to exist or does not operate at the same level?

Changing the number of employees in any program will change the amount of net pension or OPEB obligation. The housing authority should evaluate the total obligation and determine each program's adjusted share of the plan benefit obligation. The best practice is to use FDS equity transfer line 11040 to transfer the obligation to another program or activity.

In the following example, District Housing Authority has undergone a RAD conversion during FY 2019. Their GASB 75 postemployment benefit plan valuation is included for Fiscal Years 2018 and 2019 along with the program breakout for Fiscal Year 2018.

District Housing Authority GASB 75 - Ending of Program For the Year Ending December 31, 2019				
Measurement date:	**Net OPEB Liability**	**Deferred Outflows**	**Deferred Inflows**	**Net Impact**
12/31/2018	90,000	3,600	4,000	**90,400**
12/31/2019	115,000	6,000	5,500	**114,500**
Program breakout @ 12/31/18				
Low Rent Public Housing @ 50%	45,000	1,800	2,000	45,200
Housing Choice Voucher @ 25%	22,500	900	1,000	22,600
Central Cost Center / Business Activities @ 25%	22,500	900	1,000	22,600
Total	90,000	3,600	4,000	**90,400**

Due to RAD conversion, the administration of the Low Income Public Housing program has ended. The units were disposed to a tax credit partnership for which the housing authority retains a .01% ownership percentage. District Housing Authority has a property management agreement with the new entity that involves the reimbursement of allocated employee salaries. A note receivable in this instance for the reimbursed employer contributions to District's postemployment benefit plan was not established in the operating agreement. The new entity is reported as a discrete component unit with no stated obligation to the pension plan. The roll forward of the postemployment benefit plan for Fiscal Year 2019 would be as such:

	Net OPEB Liability	**Deferred Outflows**	**Deferred Inflows**	**Net Impact**
Program breakout @ 12/31/19				
Housing Choice Voucher @ 25%	28,750	1,500	1,375	28,625
Central Cost Center / Business Activities @ 75%	86,250	4,500	4,125	85,875
Total	115,000	6,000	5,500	**114,500**

District Housing Authority should continue to recognize the full impact of GASB 75 even though it is being reimbursed by the new entity for employee contributions to the plan. Along with the other conversion journal entries, the journal entries should also be made to move the Fiscal Year 2018 GASB 75 net benefit obligation from low rent to the central cost center or business activities. The equity transfer entries would be similar to the following entry during Fiscal Year 2019:

Journal Entry #5 - Ending of Program			
FDS Line	Line Items	DR	CR
Low Rent Public Housing			
357	Net OPEB Liability	45,000	
200	Deferred outflows of resources		1,800
400	Deferred inflows of resources	2,000	
11040	Equity Transfer		45,200
Central Cost Center / Business Activities			
357	Net OPEB Liability		45,000
200	Deferred outflows of resources	1,800	
400	Deferred inflows of resources		2,000
11040	Equity Transfer	45,200	

This transfers the impact of GASB 75 to the central cost center and relieves the no longer administered public housing program of the obligation.

WHAT IF… THE ALLOCATION METHOD CHANGES?

When allocation methods are updated there is no industry standard on moving the GASB 68 and 75 obligations from program to program. For this accounting brief two reasonable methods of transferring this obligation will be presented. The first method is to use the equity transfer line to restate the obligations in the year of change as if they had been using that allocation rate from the prior year. The second method is to update the allocation rate and align it to that in the year of change through employee benefits.

The former method was illustrated above in Journal Entry #5 - Ending of Program. Although in that journal entry the entire obligation was transferred, the principle is the same regarding changes in allocation rate. Suppose instead of the entire liability transferring, the allocation rate was changed.

The following chart and subsequent journal entry illustrates this concept of restating the prior balance and then rolling the obligation forward.

District Housing Authority GASB 75 - Ending of Program For the Year Ending December 31, 2019				
Measurement date:	**Net OPEB Liability**	**Deferred Outflows**	**Deferred Inflows**	**Net Impact**
12/31/2018	90,000	3,600	4,000	**90,400**
12/31/2019	115,000	6,000	5,500	**114,500**
Program breakout @ 12/31/18				
Low Rent Public Housing @ 50%	45,000	1,800	2,000	45,200
Housing Choice Voucher @ 25%	22,500	900	1,000	22,600
Central Cost Center / Business Activities @ 25%	22,500	900	1,000	22,600
Total	90,000	3,600	4,000	**90,400**
Restated Program breakout @ 12/31/18				
Low Rent Public Housing @ 45%	40,500	1,620	1,800	40,680
Housing Choice Voucher @ 25%	22,500	900	1,000	22,600
Central Cost Center / Business Activities @ 30%	27,000	1,080	1,200	27,120
Total	90,000	3,600	4,000	**90,400**

Journal Entry #6 - Change in Allocation Rate			
FDS Line	Line Items	DR	CR
Low Rent Public Housing			
357	Net OPEB Liability	4,500	
200	Deferred outflows of resources		180
400	Deferred inflows of resources	200	
11040	Equity Transfer		4,520
Central Cost Center / Business Activities			
357	Net OPEB Liability		4,500
200	Deferred outflows of resources	180	
400	Deferred inflows of resources		200
11040	Equity Transfer	4,520	

The balances per low rent and the central cost center/business activities are now stated as if the allocation method were changed in Fiscal Year 2018.

The second method is to simply change the allocation rate in the current year and to roll the change through the employee benefit expense lines. This would be shown as follows:

District Housing Authority GASB 75 - Ending of Program For the Year Ending December 31, 2019				
Measurement date:	**Net OPEB Liability**	**Deferred Outflows**	**Deferred Inflows**	**Net Impact**
12/31/2018	90,000	3,600	4,000	**90,400**
12/31/2019	115,000	6,000	5,500	**114,500**
Program breakout @ 12/31/18				
Low Rent Public Housing @ 50%	45,000	1,800	2,000	45,200
Housing Choice Voucher @ 25%	22,500	900	1,000	22,600
Central Cost Center / Business Activities @ 25%	22,500	900	1,000	22,600
Total	90,000	3,600	4,000	**90,400**
Program breakout @ 12/31/19				
Low Rent Public Housing @ 45%	51,750	2,700	2,475	51,525
Housing Choice Voucher @ 25%	28,750	1,500	1,375	28,625
Central Cost Center / Business Activities @ 30%	34,500	1,800	1,650	34,350
Total	115,000	6,000	5,500	**114,500**

The roll forward to December 31, 2019 journal entry would follow the same format as that of the allocated Journal Entry #2 presented previously.

COMMONLY USED FDS LINES FOR REPORTING AND DEFINITIONS

FDS Line	Account	Description
171	Notes, Loans, and Mortgages - noncurrent	Note receivable booked to third party entity for their proportionate share of the financial impact of GASB 68 and 75.
174	Other Assets	Amounts accrued for GASB 68 Net Pension Liability and GASB 75 Net OPEB Liability for which fiduciary plan assets exceeds total pension or OPEB liabilities.
200	Deferred Outflows of Resources	Net assets consumed which are applicable to future reporting periods. Normal debit balance.
357	Accrued Pension and OPEB Liabilities	Amounts accrued for GASB 68 Net Pension Liability and GASB 75 Net OPEB Liability. Normal credit balance.
400	Deferred Inflows of Resources	Net assets acquired which are applicable to future reporting periods. Normal credit balance.
511.4	Restricted Net Position	Net position line used when a net benefit asset is present.
11040	Prior Period Adjustments	Used for the correction of prior period errors and for the initial implementation of GASB 68 and 75.
11040	Equity Transfers	Used to account for changes in allocation rates between programs.
91500	Employee Benefits for Administration	Net annual adjustment of GASB 68 and 75 typically flows here.
94500	Employee Benefits for Maintenance	Net annual adjustment of GASB 68 and 75 typically flows here.