



# State of North Carolina

## Department of State Treasurer

RICHARD H. MOORE  
TREASURER

*State and Local Government Finance Division  
and the Local Government Commission*

T. VANCE HOLLOMAN  
DEPUTY TREASURER

**Memorandum # 1107**

**September 4, 2008**

**TO: Local Government Officials and Certified Public Accountants**

**FROM: Sharon Edmundson, Director  
Fiscal Management Section**

**SUBJECT: Illustrations of OPEB Note Disclosures Required by GASB Statements No. 43 and 45.**

The purpose of this memo is to provide guidance to those local governments and their auditors who are implementing GASB Statements No. 43 and 45 for Other Postemployment Benefits (OPEB). The disclosures, which cover five different scenarios, follow this document in appendices form for ease of use. They illustrate the disclosures for year 2 and forward; however later in this memo we will illustrate the first year calculation in order to clarify how one extracts data from the actuarial valuation for inclusion in the notes. Please note that only Phase I governments are required to implement GASB Statement No. 45 for the fiscal year ended June 30, 2008. If a Phase I government chose to advance fund their OPEB plan during the 2007-2008 fiscal year, GASB Statement No. 43 applies and requires additional disclosures which can be combined with their Statement 45 disclosures. If a Phase II or III government has chosen to advance fund their OPEB plan before they are required to report under Statement No. 45, then they must disclose the Statement No. 43 disclosures in the fiscal year that the OPEB trust is created or the year before Statement No. 45 is required. We have discouraged early advance funding and did not include an illustration of this. If your local government has chosen early funding, please contact us if you need assistance with the disclosure requirements for Statement No. 43. Please note that GASB Statements No. 43 and 45 apply only if your local government offers non-pension benefits to your retirees. Readers also should note that allowing your retirees to purchase health insurance at group rates is considered to be OPEB and must be reported in accordance with these standards. More details and discussion about the requirements of these two statements can be found in Memo #1064.

The disclosures are presented in the standard formatting used to present note disclosures in the illustrated financial statements. In future years, these disclosures will be incorporated into the various illustrated financial statements. Each local government and auditor must make sure that they choose the disclosure that is correct for each local government and its circumstance. Each unit of government has the choice to continue the 'pay-as-you-go' method that has been used prior to the implementation of these GASB statements, or to partially or fully fund an OPEB trust fund. Local governments with OPEB plans of fewer than 100 members can use the alternative method worksheet rather than getting an actuarial valuation, and in that case, have a slightly different disclosure to make. Boards of Education offer benefits through a multi-employer cost-sharing plan managed by the State and must disclose the information about their contribution rates. In

addition to health care benefits, long-term disability benefits are provided to retirees of the school systems that must be disclosed as an additional OPEB benefit. In the sample disclosures, there are notes to the preparer in text boxes to clarify issues without interfering with the note itself. Highlighting has been used to indicate the portion of the text that is unique to the local government. Please be aware that plan descriptions, membership, assumptions, funding, etc. will all be unique for each local government. There is a Table of Contents with the Appendices that indicates the various scenarios for which the sample disclosures are written.

As with the LEO Separation Allowance, much of the data for the note disclosure will be extracted from the actuary's report. However for the first year, the OPEB actuarial valuation does not look exactly like what you have seen in your previous LEO Separation Allowance valuations. In the first year of implementation, there is no beginning balance and no adjustments. All you have been given in the actuarial report is the Annual Required Contribution (ARC). It is presented in Schedule A of the valuations that have been sent to the LGC. The ARC from Schedule A should be placed into the calculation of the OPEB liability as follows if the unit has elected to use pay-as-you-go or partial funding. If the unit is fully funding, the information will be included within the text of a paragraph as demonstrated in Appendix C.

Annual Required Contribution	\$	1,071,532
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		<u>1,071,532</u>
Contributions made		<u>(555,000)</u>
Increase (decrease) in net OPEB obligation		516,532
Net OPEB obligation, beginning of year		-
Net OPEB obligation, end of year	\$	<u><u>516,532</u></u>

Questions have been raised regarding the allocation of OPEB cost including any advance funding across governmental and enterprise funds, and how that should be reported and disclosed. Costs should be allocated on some reasonable basis; e.g. full time employee equivalents and reported, at a minimum, in each enterprise fund. Cost for governmental employees can be accounted for in the General Fund. We have conferred with GASB, and as in pension disclosures, the note disclosures should be reported for the government as a whole and will not be broken down in the notes by fund. However, in the government-wide statements and in the enterprise fund statements, the net OPEB liability will have to be reported based on some proportionate share. It is suggested that the local government develop a policy regarding the allocation of OPEB cost that is consistently and systematically applied.

As previously mentioned, the respective disclosures will be included in the illustrated financial statements in the future. Please be aware that Required Supplementary Information (RSI) is required for all single employer defined benefit plans, regardless of funding, even though there is only one illustration in the Appendix. We will be preparing sample journal entries to illustrate some of the relevant accounting transactions later in the fall. If there are questions or if we can be of further assistance, please contact Amy Szalaj at 919-807-2385 or [amy.szalaj@nctreasurer.com](mailto:amy.szalaj@nctreasurer.com) or Sara Shippee at 919-807-2356 or [sara.shippee@nctreasurer.com](mailto:sara.shippee@nctreasurer.com)

### Appendices - OPEB Note Disclosures

APPENDIX A...	Carolina County BOE – Multiple-employer Cost-sharing Plan	4
APPENDIX B...	City of Dogwood – Pay as You Go- Actuary Method	7
APPENDIX C...	Carolina County – Irrevocable Trust Arrangement – Fully Funded	10
APPENDIX D...	Carolina County – Irrevocable Trust Arrangement – Partially Funded	14
APPENDIX E...	City of Dogwood – Pay as You Go- Alternative Method	18
APPENDIX F...	Required Supplementary Information – Irrevocable Trust Arrangement – Partially Funded	22

**Note to preparer:** Required supplementary information is required to be presented in the financial statements, after the note disclosures, for other postemployment benefits, regardless whether the benefits are funded.

**Carolina County BOE – Multiple-Employer Cost-sharing Plan**

**Other Postemployment Benefits**

**Postemployment Healthcare Benefits**

*Plan Description.* The postemployment healthcare benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit Fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Comprehensive Major Medical Plan (also, referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

*Funding Policy.* The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriation act. The healthcare benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare. For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, healthcare benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses of retirees prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative

expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2008, 2007, and 2006, the School Board paid all annual required contributions to the Plan for postemployment healthcare benefits of \$\_\_\_\_, \$\_\_\_\_, and \$\_\_\_\_, respectively. These contributions represented \_\_\_\_%, \_\_\_\_%, and \_\_\_\_% of covered payroll, respectively.

**Note to preparer:** The Fiscal Management Section will issue a memorandum annually that provides the information necessary to complete this note disclosure.

### Long-term Disability Benefits

*Plan Description.* Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan. The DIPNC is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan accumulates contributions from employers and any earnings on those contributions in the Disability Income Plan Trust Fund. The plan does not provide for automatic post-retirement benefit increases.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the DIPNC. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

*Funding Policy.* An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1) reaching the age of 65 and completing five years of creditable service, or (2) reaching

the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For members with five or more years of membership service as of July 31, 2007, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled. The monthly benefit shall be further reduced by the amount of any monthly payments from the Department of Veterans Affairs, any other federal agency or any payments made under the provisions of G.S.127A-108, to which the participant or beneficiary may be entitled on account of the same disability. Provided in any event, the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS. For members who obtain five years of membership service on or after August 1, 2007, the monthly long-term disability benefit is reduced by the primary Social Security retirement benefit to which you might be entitled should you become age 62 during the first 36 months. After 36 months of long-term disability, there will be no further payments from the DIPNC unless the member is approved for and are in receipt of primary Social Security disability benefits. It is payable so long as the member remains disabled and is in receipt of a primary Social Security disability benefit until eligible for an unreduced service retirement benefit. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the TSERS.

The Board's contributions are established in the Appropriations Bill by the General Assembly. Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit. For the fiscal years ended June 30, 2008, 2007, and 2006, the Board paid all annual required contributions to the DIPNC for disability benefits of \$\_\_\_\_, \$\_\_\_\_, and \$\_\_\_\_, respectively. These contributions represented \_\_\_\_%, \_\_\_\_%, and \_\_\_\_% of covered payroll, respectively.

**Note to preparer:** The Fiscal Management Section will issue a memorandum annually that provides the information necessary to complete this note disclosure.

**City of Dogwood - Pay as You Go - Actuary Method**

Other Postemployment Benefits (OPEB)

Healthcare Benefits

**Note to preparer:** The following note disclosure presents City of Dogwood’s pay-as-you-go funded healthcare benefits postemployment benefit plan. Each local government has unique parameters, based on its Board-approved benefits; the participation by its members; the plan’s funding; etc. Therefore, it is highly unlikely to have duplicates between North Carolina local governments. Therefore, it must be tailored for the unique criteria of each local government’s plan. For the City of Dogwood, its unique assumptions have been highlighted to draw your attention.

*Plan Description.* Under the terms of a City resolution, the City administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). As of July 1, 2006, this plan provides postemployment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty years of creditable service with the City. Prior to July 1, 2006, employees qualified for similar level benefits after at least five years of creditable service with the City. The City pays the full cost of coverage for these benefits through private insurers. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2007, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	1	4
Terminated plan members entitled to but not yet receiving benefits	3	1
Active plan members	14	8
Total	18	13

*Funding Policy.* The City pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a City resolution that can be amended by City Council. The City’s members pay \$125 per month for dependent coverage. The City has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 3.2% of annual covered payroll. For the current year, the City contributed \$584,740 or 0.2% of annual covered payroll. The City obtains healthcare coverage through private

insurers. The City's required contributions, under a City resolution, for employees not engaged in law enforcement and for law enforcement officers represented 0.3% and 0.03% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of \$2,750. The City's obligation to contribute to HCB Plan is established and may be amended by the City Council.

*Summary of Significant Accounting Policies.* Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 18,450
Interest on net OPEB obligation	2,005
Adjustment to annual required contribution	(8,456)
Annual OPEB cost (expense)	11,999
Contributions made	(1,111)
Increase (decrease) in net OPEB obligation	10,888
Net OPEB obligation, beginning of year	50,125
Net OPEB obligation, end of year	<u>\$ 61,013</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 11,999	9.3%	\$ 61,013

**Note to preparer:** In the year of transition, one year of information is usually available. In the subsequent year(s), add information in the table above when determined until three years of information is presented, as required by GASB Statement 45, paragraph 25(c).

*Funded Status and Funding Progress.* As of December 31, 2007, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$120,456. The covered payroll (annual payroll of active

employees covered by the plan) was \$584,740, and the ratio of the UAAL to the covered payroll was 20.6 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 12.00 to 6.00 percent annually. Both rates included a 3.75 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, was 30 years.

**Note to preparer:** Units that fund their OPEB healthcare benefits based on actuarial valuations should use the format as presented for Carolina County's fiduciary statements and note disclosures. Units that pay-as-you-go should use the format as presented in the City of Dogwood's note disclosures. Please note, fiduciary statements will not be applicable under the pay-as-you-go method.

**Carolina County – Irrevocable Trust Arrangement – Fully Funded  
 (Statements 43 & 45 Combined)**

**Other Postemployment Benefits (OPEB)**

**Healthcare Benefits**

**Note to preparer:** The following note disclosure presents Carolina County’s fully funded healthcare benefits postemployment benefit plan. Each local government has unique parameters, based on its Board-approved benefits; the participation by its members; the plan’s funding; etc. Therefore, it must be tailored for the unique criteria of each local government’s plan. For Carolina County, its unique assumptions have been highlighted to draw your attention.

*Plan Description.* Under a County resolution as of July 1, 2005, Carolina County provides healthcare benefits through the Healthcare Benefits Plan (the HCB Plan) as a single-employer defined benefit plan to cover retirees of the County who participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least fifteen years of creditable service with the County. Under a County resolution prior to July 1, 2006, employees qualified for similar level benefits after at least three years of creditable service with the County. The County pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the County's group rates. The HCB Plan is available to qualified retirees at 100% until the age of 65 or until Medicare eligible, whichever is sooner. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2007, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	15	9
Terminated plan members entitled to but not yet receiving benefits	3	1
Active plan members	114	125
Total	132	135

*Funding Policy.* The Board of Commissioners established the contribution requirements of plan members and may be amended by the Board. The County’s members pay \$240 per month for dependent coverage. Per a County resolution, the County is required each year to contribute the *annual required contribution of the employer (ARC)*,

The current ARC rate is 12.93% of annual covered payroll. For the current year, the County contributed \$1,249,828 or 7.4% of annual covered payroll. The County obtains healthcare coverage through private insurers. The County's required contributions, under a Board resolution, for employees not engaged in law enforcement and for law enforcement officers represented 5.7% and 12.2% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of \$23,040. The County's obligation to contribute to HCB Plan is established and may be amended by the Board of Commissioners.

*Annual OPEB Cost and Net OPEB Obligation.* The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**Note to preparer:** According to GASBS 45, paragraph 25, units with an outstanding net OPEB obligation amounts **other than zero** (liability or intangible asset) should disclose the components of annual OPEB cost (annual required contribution, interest on the net OPEB obligation, and the adjustment to the ARC), the increase or decrease in the net OPEB obligation, and the net OPEB obligation at the end of the year. Please see the City of Dogwood Illustrative Financial Statements for an example with a net OPEB obligation. In addition, units that fund the OPEB benefits based on actuarial valuations should use the format as presented for Carolina County's fiduciary statements and note disclosures. Units that pay-as-you-go should use the format as presented in the City of Dogwood's note disclosures. Please note, fiduciary statements will not be applicable under the pay-as-you-go method.

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2008:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 1,249,828	100%	\$ -

**Note to preparer:** In the year of transition, one year of information is usually available. When available, add subsequent year's information in the table above when determined until three years of information is presented, as required by GASB Statement 45, paragraph 25(c).

*Summary of Significant Accounting Policies.* The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Under a County resolution, the contributions are recognized when due and the

County will provide the contributions to the HCB Plan. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. Short-term money market debt instruments, deposits, and repurchase agreements, are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price. Administration costs of the HCB Plan are financed through investment earnings.

*Funded Status and Funding Progress.* As of December 31, 2007, the most recent actuarial valuation date, the plan was 52.8 percent funded. The actuarial accrued liability for benefits was \$12,617,146, and the actuarial value of assets was \$6,658,247, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,958,899. The covered payroll (annual payroll of active employees covered by the plan) was \$16,849,350, and the ratio of UAAL to the covered payroll was 35.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

**Note to preparer:** If the local government has actuarial information on more than one year, please replace the last sentence of the previous paragraph with “The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.”.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 7.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date. The medical cost trend rate varied between 12.00 and 6.00 percent. Both

rates included a 3.75 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level of percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, was 30 years.

APPENDIX D

Carolina County – Irrevocable Trust Arrangement – Partially Funded  
 (St.43 & 45 Combined)

Other Postemployment Benefits (OPEB)

Healthcare Benefits

**Note to preparer:** The following note disclosure presents Carolina County’s partially funded healthcare benefits postemployment benefit plan. Each local government has unique parameters, based on its Board-approved benefits; the participation by its members; the plan’s funding; etc. Therefore, it must be tailored for the unique criteria of each local government’s plan. For Carolina County, its unique assumptions have been highlighted to draw your attention.

*Plan Description.* Under a County resolution as of July 1, 2005, Carolina County provides healthcare benefits through the Healthcare Benefits Plan (HCB Plan) as a single-employer defined benefit plan to cover retirees of the County who participate in the North Carolina Local Governmental Employees’ Retirement System (System) and have at least fifteen years of creditable service with the County. Under a County resolution prior to July 1, 2006, employees qualified for similar level benefits after at least three years of creditable service with the County. The County has elected to partially pay the future overall cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the County’s group rates. The HCB Plan is available to qualified retirees at 100% until the age of 65 or until Medicare eligible, whichever is sooner. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at December 31, 2007, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	15	9
Terminated plan members entitled to but not yet receiving benefits	3	1
Active plan members	114	125
Total	132	135

*Funding Policy.* The Board of Commissioners established the contribution requirements of plan members and may be amended by the Board. The County’s members pay \$240 per month for dependent coverage. Per a County resolution, the County is required to contribute the projected pay-as-you-go

financing requirements, with an additional amount to prefund benefits as determined annually by the Board.

The current ARC rate is 9.2% of annual covered payroll. For the current year, the County contributed \$1,459,874 or 8.7% of annual covered payroll. The County obtains healthcare coverage through private insurers. The County's required contributions, under a Board resolution, for employees not engaged in law enforcement and for law enforcement officers represented 8.5% and 11.3% of covered payroll, respectively. There were no contributions made by employees, except for dependent coverage in the amount of \$19,920. The County's obligation to contribute to HCB Plan is established and may be amended by the Board of Commissioners.

*Summary of Significant Accounting Policies.* The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Under a County resolution, the contributions are recognized when due and the County will provide the contributions to the HCB Plan. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations. Short-term money market debt instruments, deposits, and repurchase agreements, are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price. Administration costs of the HCB Plan are financed through investment earnings.

*Annual OPEB Cost and Net OPEB Obligation.* The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the County's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$ 1,549,828
Interest on net OPEB obligation	324,680
Adjustment to annual required contribution	(256,489)
Annual OPEB cost (expense)	1,618,019
Contributions made	(1,459,874)
Increase (decrease) in net OPEB obligation	158,145
Net OPEB obligation, beginning of year	40,543
Net OPEB obligation, end of year	<u>\$ 198,688</u>

**Note to preparer:** According to GASBS 45, paragraph 25, units without an outstanding net OPEB obligation amounts should not disclose the components of annual OPEB cost (annual required contribution, interest on the net OPEB obligation, and the adjustment to the ARC), the increase or decrease in the net OPEB obligation, and the net OPEB obligation at the end of the year. Please see Carolina County- Fully Funded for an example when a net OPEB obligation equals zero. Units that pay-as-you-go should use the format as presented in the City of Dogwood’s note disclosures. Please note, fiduciary statements will not be applicable under the pay-as-you-go method.

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the HCB Plan, and the net OPEB obligation for 2008 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 1,618,019	90.2%	\$ 198,688

**Note to preparer:** In the year of transition, one year of information is usually available. When available, add subsequent year’s information in the table above when determined until three years of information is presented, as required by GASB Statement 45, paragraph 25(c).

*Funded Status and Funding Progress.* As of December 31, 2007, the most recent actuarial valuation date, the plan was 5.3 percent funded. The actuarial accrued liability for benefits was \$13,594,971, and the actuarial value of assets was \$718,429, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,876,542. The covered payroll (annual payroll of active employees covered by the plan) was \$16,849,350, and the ratio of UAAL to the covered payroll was 76.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

**Note to preparer:** If the local government has actuarial information on more than one year, please replace the last sentence of the previous paragraph with “The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.”.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date. The medical cost trend rate varied between 12.00 and 6.00 percent. Both rates included a 3.75 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected unit credit on a level percent of pay, open basis. The remaining amortization period at December 31, 2007, was 30 years.

## City of Dogwood – Pay as You Go- Alternative Method

### Other Postemployment Benefits (OPEB)

#### Healthcare Benefits

**Note to preparer:** The following note disclosure presents City of Dogwood's pay-as-you-go funded healthcare benefits postemployment benefit plan. Each local government has unique parameters, based on its Board-approved benefits; the participation by its members; the plan's funding; etc. Therefore, it is highly unlikely to have duplicates between North Carolina local governments. Therefore, it must be tailored for the unique criteria of each local government's plan. For the City of Dogwood, its unique assumptions have been highlighted to draw your attention.

*Plan Description.* Under the terms of a City resolution, the City administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides postemployment healthcare benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of creditable service with the City. The City pays the full cost of coverage for these benefits through private insurers. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. The City Council may amend the benefit provisions. A separate report was not issued for the plan.

*Funding Policy.* By City resolution, the City pays the full cost of coverage for the healthcare benefits paid to qualified retirees. The City's members pay \$85 per month for dependent coverage. The City has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. In fiscal year ended, June 30, 2008, the City's total contributions were \$1,111 and total member contributions were \$3,400.

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City’s annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$ 25,992
Interest on net OPEB obligation	1,430
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	27,422
Contributions made	(1,111)
Increase (decrease) in net OPEB obligation	26,311
Net OPEB obligation, beginning of year	565,384
Net OPEB obligation, end of year	<u>\$ 591,695</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 27,422	4.1%	591,695

*Funded Status and Funding Progress.* As of June 30, 2008, the actuarial accrued liability for benefits was \$591,695, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$584,740, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 101.2 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

**Note to preparer:** If the local government has actuarial information on more than one year, please replace the last sentence of the previous paragraph with “The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.”.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

*Retirement age for active employees* – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

*Marital status* – Marital status of members at the calculation date was assumed to continue throughout retirement.

*Mortality* – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2005 United States Life Tables for Males and for Females were used.

*Turnover* – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Healthcare cost trend rate* – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 9.5 percent initially, reduced to an ultimate rate of 5.6 percent after six years, was used.

*Health insurance premiums* – 2007 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

*Inflation rate* – The expected long-term inflation assumption of 3.30 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2007 Annual Report of the Board of Trustees of Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

*Payroll growth rate* – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 5.50 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2008, was thirty years.

**Note to preparer:** Units that fund their OPEB healthcare benefits based on actuarial valuations should use the format as presented for Carolina County's fiduciary statements and note disclosures. Units that pay-as-you-go should use the format as presented in the City of Dogwood's note disclosures. Please note, fiduciary statements will not be applicable under the pay-as-you-go method.

APPENDIX F

**Required Supplementary Information – Irrevocable Trust Arrangement – Partially Funded**

Required Supplementary Information  
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/2007	\$ 718,429	\$ 13,594,971	\$ 12,876,542	5.3%	\$ 16,849,350	76.4%

Required Supplementary Information  
 Schedule of Employer Contributions

Year Ending June 30	Annual Required Contribution	Percentage Contributed
2008	\$ 1,249,828	116.8%

**Note to preparer:** Required supplementary information is required for other postemployment benefits, regardless whether the benefits are funded.

**Note to preparer:** In the year of transition, one year of information is usually available. In the subsequent year(s), add information in the tables above when determined until three years of information is presented, as required by GASB Statement 43, paragraphs 35-36.