

GASB 45 Reporting and Disclosure Requirements

As the Phase II governments prepare to implement GASB 45 on June 30, 2009, the VGFOA Education Committee thought it might be useful to provide an overview of GASB 45's reporting and disclosure requirements and to provide examples of the financial statements, footnotes and required supplemental information from several Virginia governments. The current examples include two types of funding including establishing a trust fund and providing no funding.

Reporting Overview:

Annual OPEB cost must be shown in government-wide financial statements or in the financial statements of proprietary or fiduciary funds from which OPEB contributions are made. Any Net OPEB obligation should be reflected as a liability (if under funded) or an asset (if over funded) in government-wide financial statements or the financial statements of proprietary or fiduciary funds depending upon which fund type is used for OPEB contributions.

If contributions are made to a pooled trust where contributions are irrevocable the reports should show the OPEB expense/expenditures for the contractually required contributions.

Disclosure Overview:

GASB 45 requires that notes to the financial statements include:

- Description of Plan
- Funding Policy
- Amounts and Components of Cost
- Annual Required Contribution
- Annual OPEB Cost
- Net OPEB Obligation
- Actual Contribution Rate
- Actuarial valuation date
- Actuarial accrued liability (AAL)
- Actuarial value of assets
- Funded ratio (actuarial value of plan assets/AAL)
- Unfunded Actuarial Accrued Liability (UAAL)
- UAAL to covered payroll
- Actuarial Methods and Assumptions

Required Supplemental Information must include:

- Multi-Year (Current and two past years) Schedule of Funding Progress
 - Annual Required Contribution
 - Actual Percentage Contributed

The following includes excerpts are from the 2008 CAFRs of Fairfax County and Hanover County which show the relevant disclosures for employers who have established trust funds; and Prince William County Schools and Loudoun County which provided no FY2008 funding and therefore utilized the government-wide approach.

Fairfax County

COUNTY OF FAIRFAX, VIRGINIA
Statement of Net Assets
June 30, 2008

| | <u>Primary Government</u> | | Total Primary Government |
|---|----------------------------|-----------------------------|--------------------------------|
| | Governmental Activities | Business-type Activities | |
| ASSETS | | | |
| Equity in pooled cash and temporary investments | \$ 1,168,266,363 | 97,729,775 | 1,265,996,138 |
| Cash in banks | - | - | - |
| Investments | - | 244,600 | 244,600 |
| Receivables (net of allowances): | | | |
| Accounts | 26,035,548 | - | 26,035,548 |
| Accrued interest | 3,817,391 | 58,833 | 3,876,224 |
| Property taxes: | | | |
| Delinquent | 21,251,583 | - | 21,251,583 |
| Not yet due | 2,374,173,844 | - | 2,374,173,844 |
| Business license taxes - delinquent | 3,008,859 | - | 3,008,859 |
| Loans | 48,059,505 | - | 48,059,505 |
| Notes | - | - | - |
| Other | 26,474 | - | 26,474 |
| Due from intergovernmental units (net of allowances): | | | |
| Property tax relief: | | | |
| Property tax relief - not yet due | 211,313,944 | - | 211,313,944 |
| Other | 105,836,233 | 24,594,832 | 130,431,065 |
| Due from primary government | - | - | - |
| Due from component units | 1,502,528 | - | 1,502,528 |
| Loan to component unit | 15,375,000 | - | 15,375,000 |
| Lease to component unit | 57,805,000 | - | 57,805,000 |
| Interfund receivables | 331,222 | (331,222) | - |
| Inventories of supplies | 3,165,831 | 563,125 | 3,728,956 |
| Prepaid and other assets | 189,381 | - | 189,381 |
| Restricted assets: | | | |
| Equity in pooled cash and temporary investments | 39,521,240 | 30,300,590 | 69,821,830 |
| Cash with fiscal agents | 839,598 | - | 839,598 |
| Certificates of deposit - performance bonds | 58,790 | - | 58,790 |
| Investments | - | 11,725,477 | 11,725,477 |
| Land held for sale | - | - | - |
| Capital assets: | | | |
| Non-depreciable: | | | |
| Land | 416,738,664 | 17,630,088 | 434,368,752 |
| Construction/Equipment in progress | 90,252,484 | 51,343,979 | 141,596,463 |
| Depreciable/amortizable: | | | |
| Equipment | 312,131,811 | 11,002,819 | 323,134,630 |
| Library collections | 70,034,685 | - | 70,034,685 |
| Purchased capacity | - | 684,908,046 | 684,908,046 |
| Buildings and improvements | 1,194,500,839 | 961,400,289 | 2,155,901,128 |
| Infrastructure | 543,396,449 | - | 543,396,449 |
| Accumulated depreciation | (699,990,213) | (421,067,023) | (1,121,057,236) |
| Accumulated amortization | - | (144,380,755) | (144,380,755) |
| Net OPEB Asset | 27,032,610 | - | 27,032,610 |
| Deferred bond issuance costs (net of amortization) | 8,978,536 | 315,015 | 9,293,551 |
| Total assets | \$ 6,043,654,199 | 1,326,238,468 | 7,369,892,667 |
| See accompanying notes to the financial statements. | | | |

COUNTY OF FAIRFAX, VIRGINIA COMPREHENSIVE ANNUAL FINANCIAL REPORT

EXHIBIT A

| Total Component Units | Reclassifications (See Note A-12) | Reporting | Total Entity | |
|-----------------------|-----------------------------------|----------------|-------------------|---|
| | | | | ASSETS |
| | 421,597,179 | - | 1,687,593,317 | Equity in pooled cash and temporary investments |
| | 14,789,174 | - | 14,789,174 | Cash in banks |
| 4,567,682 | - | - | 4,812,282 | Investments |
| | | | | Receivables (Net of allowances): |
| 3,186,442 | - | - | 29,221,990 | Accounts |
| 214,089 | - | - | 4,090,313 | Accrued interest |
| | | | | Property taxes: |
| | | | 21,251,583 | Delinquent |
| | | | 2,374,173,844 | Not yet due |
| | | | 3,008,859 | Business license taxes – delinquent |
| 20,614,330 | - | - | 48,059,505 | Loans |
| | | | 20,614,330 | Notes |
| | | | 26,474 | Other |
| | | | | Due from intergovernmental units (net of allowances): |
| | | | | Property tax relief: |
| | | | 211,313,944 | Not yet due |
| 44,691,029 | - | - | 175,122,094 | Other |
| 3,508,913 | - | - | 3,508,913 | Due from primary government |
| | | | 1,502,528 | Due from component units |
| | | | 15,375,000 | Loan to component unit |
| | | | 57,805,000 | Lease to component unit |
| | | | - | Interfund receivables |
| 2,661,693 | - | - | 6,390,649 | Inventories of supplies |
| 21,289,733 | - | - | 21,479,114 | Prepaid and other assets |
| | | | | Restricted assets: |
| 30,775,916 | - | - | 100,597,746 | Equity in pooled cash and temporary investments |
| 10,221,685 | - | - | 11,061,283 | Cash with fiscal agents |
| 3,441,242 | - | - | 3,500,032 | Certificates of deposit – performance bonds |
| 3,351,849 | - | - | 15,077,326 | Investments |
| 1,402,838 | - | - | 1,402,838 | Land held for sale |
| | | | | Capital assets: |
| | | | | Non-depreciable: |
| 414,198,272 | - | - | 848,567,024 | Land |
| 194,028,475 | - | - | 335,624,938 | Construction/equipment in progress |
| | | | | Depreciable/amortizable: |
| | 209,054,154 | - | 532,188,784 | Equipment |
| 27,141,668 | - | - | 97,176,353 | Library collections |
| | | | 684,908,046 | Purchased capacity |
| 2,892,304,645 | - | - | 5,048,205,773 | Buildings and improvements |
| | | | 543,396,449 | Infrastructure |
| (1,200,679,085) | - | - | (2,321,736,321) | Accumulated depreciation |
| | | | (144,180,755) | Accumulated amortization |
| 813,364 | - | - | 27,845,974 | Net OPEB Asset |
| 2,327,886 | - | - | 11,621,437 | Deferred bond issuance costs (net of amortization) |
| 3,125,503,173 | - | 10,495,395,840 | | Total assets |

Continued

BASIC FINANCIAL STATEMENTS

**COUNTY OF FAIRFAX, VIRGINIA
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2008**

**EXHIBIT A-2
concluded**

Fund balances - Total governmental funds \$ 734,766,447

Amounts reported for governmental activities in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental fund activities are not financial resources and, therefore, are not reported in the funds:

| | | | |
|-------------------------------|----|----------------------|---------------|
| Non-depreciable assets: | | | |
| Land | \$ | 414,799,976 | |
| Construction in progress | | 88,643,103 | |
| Depreciable assets: | | | |
| Equipment | | 212,466,460 | |
| Library collections | | 70,034,685 | |
| Buildings and improvements | | 1,176,098,587 | |
| Infrastructure | | <u>543,396,449</u> | |
| Total capital assets | | 2,505,439,260 | |
| Less accumulated depreciation | | <u>(628,656,129)</u> | 1,876,783,131 |

Some of the County's receivables will not be collected soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds:

| | | | |
|--|----|-------------------|-------------|
| Delinquent taxes (net of allowances): | | | |
| Property | \$ | 17,010,238 | |
| Business license | | 3,008,859 | |
| Sales and use and other taxes | | 22,017,715 | |
| EMS transport and other charges for services | | 6,569,431 | |
| Lease to component unit | | <u>57,805,000</u> | 106,411,243 |

Costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred in the government-wide statements. 8,978,536

OPEB costs are recognized as expenditures in the fund statements, but are deferred in the government-wide statements. 27,032,610

Internal service funds are used by management to provide certain goods and services to governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

| | | | |
|-------------------------------|----|---------------------|-------------|
| Assets: | | | |
| Current assets | \$ | 164,405,550 | |
| Capital assets | | 121,615,672 | |
| Less accumulated depreciation | | (71,334,084) | |
| Liabilities | | <u>(51,892,121)</u> | 162,795,017 |

Long-term liabilities related to governmental fund activities are not due and payable in the current period and, therefore, are not reported in the funds:

| | | | |
|--|----|---------------------|-----------------|
| General obligation bonds payable, net | \$ | (1,921,839,941) | |
| Revenue bonds payable, net | | (227,716,430) | |
| Notes payable | | (49,944,128) | |
| Compensated absences payable | | (98,854,932) | |
| Landfill closure and postclosure obligation | | (58,829,096) | |
| Obligations under capital leases and installment purchases | | (32,985,557) | |
| Net pension obligation | | (51,676,866) | |
| Other long-term liabilities | | (1,760,000) | |
| Accrued interest on long-term debt | | <u>(23,571,136)</u> | (2,467,178,086) |

Net assets of governmental activities \$ 449,588,898

BASIC FINANCIAL STATEMENTS

COUNTY OF FAIRFAX, VIRGINIA
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
 to the Statement of Activities
 Governmental Funds
 For the fiscal year ended June 30, 2008

EXHIBIT A-3
 concluded

Net change in fund balances - Total governmental funds \$ (132,059,947)

Amounts reported for governmental activities in the statement of activities (Exhibit A-i) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.

| | | |
|---------------------------|---------------------|-------------|
| Capital outlays | \$ 269,431,452 | |
| Less depreciation expense | <u>(55,892,984)</u> | 213,538,468 |

In the statement of activities, the gain or loss on the disposition of capital assets is reported. However, in the governmental funds, only the proceeds from sales are reported, which increase fund balance. Thus, the difference is the net book value (i.e., depreciated cost) of the capital asset dispositions. (2,549,765)

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources. 27,225,529

Some revenues will not be collected for several months after the fiscal year ends, hence, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased (decreased) by this amount this year:

| | | |
|--|------------------|-----------|
| Delinquent property taxes | \$ (28,709) | |
| Delinquent business license taxes | 73,254 | |
| Sales and use and other taxes | 2,712,493 | |
| EMS transport and other charges for services | <u>1,625,121</u> | 4,382,159 |

The receipt of principal payments for the lease to the component unit does not result in a revenue in the statement of activities. (1,150,000)

The issuance of long-term debt, including premiums, is reported as other financing sources in the governmental funds and thus, increases fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities. The following were issued:

| | | |
|---------------------------------------|---------------------|---------------|
| Series 2008A General Obligation Bonds | \$ (250,487,439) | |
| Bond Anticipation Note | <u>(38,771,498)</u> | (289,258,937) |

The costs incurred from the issuance of long-term debt are recognized as expenditures in the fund statements, but are deferred and amortized in the government-wide statements, resulting in a net difference. 517,198

OPEB costs are recognized as expenditures in the fund statements, but are deferred and amortized in the government-wide statements, resulting in a net difference. 27,032,610

The repayment of the principal amounts of long-term debt is reported as an expenditure or as an other financing use when debt is refunded in governmental funds and thus, reduces fund balance. However, the principal payments reduce the liabilities in the statement of net assets and do not result in an expense in the statement of activities.

| | | |
|--|------------------|-------------|
| Principal repayments of matured bonds, notes, and loans | \$ 170,249,170 | |
| Principal payments of capital leases and installment purchases | <u>2,586,318</u> | 172,835,488 |

Interest on long-term debt is reported as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is affected as this interest accrues and as bond-related items are amortized. This difference in interest reporting is as follows:

| | | |
|--|--------------------|-----------|
| Accrued interest on bonds, loans, and capital leases | \$ (2,142,928) | |
| Amortization of bond premiums | 14,876,077 | |
| Amortization of deferred losses on bond refundings | <u>(3,594,646)</u> | 9,138,503 |

Under the modified accrual basis of accounting used in the governmental funds, expenditures for the following are not recognized until they mature. In the statement of activities, however, they are reported as expenses and liabilities as they accrue. The timing differences are as follows:

| | | |
|--|----------------|--------------|
| Landfill closure and postclosure costs | \$ (56,949) | |
| Compensated absences | (5,632,934) | |
| Net pension obligation | (14,159,623) | |
| Other | <u>305,521</u> | (19,543,985) |

Internal service funds are used by management to provide certain goods and services to governmental funds. The increase in net assets is reported with governmental activities. (20,266,144)

Change in net assets of governmental activities \$ (10,158,823)

BASIC FINANCIAL STATEMENTS

Exhibit A-7

**County of Fairfax, Virginia
Statement of Fiduciary Net Assets
June 30, 2008**

| | Pension Trust Funds | OPEB Trust Fund | Agency Funds |
|--|-------------------------|--------------------|----------------------|
| ASSETS | | | |
| Equity in pooled cash and temporary investments | 6,575,630 | 227,573 | 2,552,646 |
| Cash collateral for securities lending | 763,168,960 | - | 161,967 |
| Contributions receivable | 7,115,403 | - | - |
| Accrued interest and dividends receivable | 17,889,063 | 12,088 | 915 |
| Receivable from sale of investments | 355,022,939 | - | - |
| Due from intergovernmental units | - | 194,184 | - |
| Prepaid and other assets | 850 | - | - |
| Investments, at fair value: | | | |
| U.S. Government securities | 88,953,566 | - | 28,761,910 |
| Asset-backed securities | 477,781,863 | - | - |
| Corporate and other bonds | 498,387,880 | - | - |
| Common and preferred stock | 1,591,087,888 | - | - |
| Money market funds | - | - | 4,925,761 |
| Repurchase agreements | - | - | 1,473,922 |
| Short-term investments | 311,510,336 | - | - |
| Investment in pooled funds | 1,814,084,285 | 48,195,000 | - |
| Equipment | - | - | <u>2,022,300</u> |
| Total assets | <u>5,931,618,663</u> | <u>48,628,845</u> | <u>\$ 39,899,421</u> |
| LIABILITIES | | | |
| Accounts payable and accrued liabilities | 5,423,116 | - | 661 |
| Accrued salaries and benefits | 88,821 | 4,153 | - |
| Interfund payable | 25,302 | 1,172 | - |
| Payable for purchase of pension investments | 449,584,814 | - | - |
| Liabilities for collateral received under securities lending agreements | 763,168,960 | - | - |
| Liabilities under reimbursement agreements | - | - | 39,877,489 |
| Obligations under capital leases | - | - | 21,271 |
| Total liabilities | <u>1,218,291,013</u> | <u>5,325</u> | <u>\$ 39,899,421</u> |
| NET ASSETS | | | |
| Held in trust for pension/OPEB benefits | <u>\$ 4,713,327,650</u> | <u>48,623,520</u> | |

(A schedule of funding progress is presented on page 102.)
See accompanying notes to the financial statements.

COUNTY OF FAIRFAX, VIRGINIA
Statement of Changes in Plan Net Assets
Trust Funds
For the fiscal year ended June 30, 2008

EXHIBIT A-8

| | Pension Trust Funds | OPEB Trust Fund |
|---|-------------------------|--------------------|
| ADDITIONS | | |
| Contributions: | | |
| Employer | \$ 123,169,690 | 58,680,610 |
| Plan members | 53,294,769 | - |
| Other | - | <u>501,658</u> |
| Total contributions | <u>176,464,459</u> | <u>59,182,268</u> |
| Investment income: | | |
| From investment activities: | | |
| Net appreciation in fair value of investments | (204,007,121) | - |
| Interest | 112,570,709 | 12,088 |
| Dividends | <u>46,747,806</u> | - |
| Total income from investment activities | <u>(44,688,606)</u> | <u>12,088</u> |
| Less investment activities expenses: | | |
| Management fees | 19,695,717 | - |
| Other | <u>899,769</u> | <u>5,000</u> |
| Total investment activities expenses | <u>20,595,486</u> | <u>5,000</u> |
| Net income from investment activities | <u>(65,284,092)</u> | <u>7,088</u> |
| From securities lending activities: | | |
| Securities lending income | <u>31,428,127</u> | - |
| Less securities lending expenses: | | |
| Borrower rebates | 24,566,393 | - |
| Management fees | <u>1,885,127</u> | - |
| Total securities lending activities expenses | <u>26,451,520</u> | - |
| Net income from securities lending activities | <u>4,976,607</u> | - |
| Net investment income | <u>(60,307,485)</u> | <u>7,088</u> |
| Total additions | <u>116,156,974</u> | <u>59,189,356</u> |
| DEDUCTIONS | | |
| Benefits | 217,531,411 | 10,480,610 |
| Refunds of contributions | 5,817,979 | - |
| Administrative expenses | <u>2,719,217</u> | <u>85,226</u> |
| Total deductions | <u>226,068,607</u> | <u>10,565,836</u> |
| Net increase (decrease) | (109,911,633) | 48,623,520 |
| Net assets, July 1, 2007 | <u>4,823,239,283</u> | - |
| Net assets, June 30, 2008 | \$ 4,713,327,650 | 48,623,520 |

See accompanying notes to the financial Statements.

H. OTHER POST-EMPLOYMENT BENEFITS

Beginning in fiscal year 2008, the reporting entity is required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for other post-employment benefits (OPEB) including health care, life insurance, and other non-pension benefits offered to retirees. This new standard addresses how the reporting entity should account for and report its costs related to post-employment health care and other non-pension benefits, such as County's retiree health benefit subsidy. Historically, the County's

subsidy was funded on a pay-as-you-go basis. GASB Statement No. 45 requires that the County recognize the cost of the retiree health subsidy and other post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the County. This funding methodology mirrors the funding approach used for pension benefits. The legal authority to establish a trust fund to pre-fund OPEB was provided by the Virginia General Assembly and Governor in March 2007. Accordingly, the reporting entity has established trust funds to fund the cost of OPEB.

1. Fairfax County OPEB Plan

Plan Description

The Fairfax County OPEB Trust Fund is a single-employer defined benefit plan administered by Fairfax County. The County provides medical/dental, vision, and life insurance benefits to eligible retirees and their spouses. In order to participate, retirees must have reached the age of 55 or be on disability retirement and must have health benefit coverage in a plan provided by the County. Retirees must have five years of service in order to participate in this program. Beginning in fiscal year 2004, the amount of monthly subsidy provided by the County is based on years of service and ranges from \$30 per month to \$220 per month. Retirees receiving the subsidy prior to fiscal year 2004 are grandfathered at \$100 per month unless their years of service entitle them to receive a higher monthly subsidy.

In addition, the Board of Supervisors has established a program to subsidize the continuation of term life insurance, at reduced coverage amounts, for retirees. Retirees generally pay for fifty percent of their coverage amounts at age-banded premium rates, with the County incurring the balance of the cost. Benefit provisions are established and may be amended by the Board of Supervisors.

Funding Policy

The contributions to the OPEB Trust Fund are established and may be amended by the Board of Supervisors. The contributions are typically based on projected pay-as-you-go financing requirements, with an additional amount to pre-fund benefits. GASB Statement No. 45 requires recognition of the current expense of OPEB based on each governing body's annual required contribution, but does not require funding of the related liability.

Fairfax County is one of the founding participants in the Virginia Pooled OPEB Trust Fund sponsored by the Virginia Municipal League and the Virginia Association of Counties (VML/VACo). The Virginia Pooled OPEB Trust Fund is established as an investment vehicle for participating employers to accumulate assets to fund OPEB. Plan assets for purposes of GASB Statement No. 45 are usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, in which (a) contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer or plan administrator, for the payment of benefits in accordance with the terms of the plan. Further information, including financial statements, can be obtained by writing to VML/VACo Finance Program, 1108 East Main Street, Richmond, Virginia 23219.

Annual OPEB Cost

The County'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 No. 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 County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2008 is as follows:

| | 2008 |
|---|-----------------|
| ARC, for the year ended June 30 | \$ 31,648,000 |
| Interest on net OPEB asset from prior year | . |
| Actuarial adjustment | . |
| Annual OPEB cost | 31,648,000 |
| Actual contributions | (58,680,610) |
| Increase (decrease) in net OPEB asset, for the year ended June 30 | (27,032,610) |
| Net OPEB asset, beginning of year | . |
| Net OPEB asset, end of year | \$ (27,032,610) |
| Percentage of annual OPEB cost contributed | 185.42% |

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, also presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

For the year ended June 30, 2008, the County's OPEB funding progress is as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (000) (a) | Actuarial Accrued Liability (AAL) Entry Age (000) (b) | Unfunded AAL (UAAL) (Funding Excess) (000) (b-a) | Funded Ratio (a/b) | Covered Payroll (000)(c) | UAAL (Funding Excess) as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------------|---|--|--------------------|--------------------------|--|
| 7/1/2007 | \$. | \$ 379,856 | \$379,856 | - | % | \$ 650,106 58.43% |

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.

The ARC for fiscal year 2008 was determined as part of the July 1, 2007, actuarial valuation using the entry age actuarial cost method. Significant actuarial assumptions used in the valuation include:

- a. A rate of return on the investment of present and future assets of 7.5 percent per year compounded annually, including an inflation component of 4.0 percent.
- b. An annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after five years (8.00%, 7.00%, 6.00%, 5.50%, 5.00%), including an inflation component of 4.0 percent.

The actuarial value of the OPEB assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Any excess of these assets over actuarial accrued liability is amortized as a level percentage of projected payroll over an open 30 year period. The remaining amortization period is 30 years.

The Fairfax County OPEB Trust Fund does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or of another entity.

Concentrations

The Fairfax County OPEB Trust Fund does not have investments (other than U.S. Government and U.S. Government guaranteed obligations) in any one organization that represent 5.0 percent or more of net assets held in trust for OPEB benefits.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF FAIRFAX, VIRGINIA
Schedule of Employer Contributions
For the fiscal year ended June 30, 2008

| Fiscal Year | Primary Government Other Post-Employment Benefits (OPEB) | | Component Unit - Public Schools Other Post-Employment Benefits (OPEB) | |
|----------------|--|---------------------------|---|---------------------------|
| | Annual Required | Percentage Contributed | Annual Required | Percentage Contributed |
| 2008 | \$ 31,648,000 | 185.4 % | \$25,302,000 | 103.21 % |

The annual required contribution is equal to the annual pension cost. See accompanying notes to required supplementary information.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

C. OTHER POST-EMPLOYMENT BENEFITS (OPEB) TREND DATA

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 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.

Information pertaining to the OPEB plans administered by the reporting entity can be found in Note H to the financial statements.

COUNTY OF HANOVER

COUNTY OF HANOVER, VIRGINIA

Statement of Net Assets

June 30, 2008

| | Primary Government | | | Component Units | |
|---|--------------------|--------------------|--------------------|--------------------|----------------|
| | Governmental | Business-type | Total | School | Economic |
| | Activities | Activities | | | Development |
| | | | | | Authority |
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash, cash equivalents and investments | \$ 57,255,849 | 32,399,982 | 89,655,831 | 15,288,158 | 265,123 |
| Receivables (net of allowance for uncollectibles) | 62,939,651 | 3,927,912 | 66,867,563 | 4,750,851 | - |
| Inventories | 216,041 | - | 216,041 | 131,330 | - |
| Total current assets | 120,411,541 | 36,327,894 | 156,739,435 | 20,170,339 | 265,123 |
| Noncurrent Assets: | | | | | |
| Cash, cash equivalents and investments - restricted | 2,036,426 | 3,484,543 | 5,520,969 | - | - |
| Prepaid postemployment healthcare benefits | 29,378 | - | 29,378 | 207,133 | - |
| Capital assets (net of accumulated depreciation): | | | | | |
| Land | 8,601,076 | 10,201,876 | 18,802,952 | 7,400,682 | - |
| Buildings | 162,475,289 | 61,304,550 | 223,779,839 | 54,679,431 | - |
| Improvements other than buildings | 3,030,556 | 116,172,246 | 119,202,802 | 2,357,577 | - |
| Machinery and equipment | 11,310,381 | 1,013,105 | 12,323,486 | 8,943,068 | - |
| Infrastructure | 14,057,957 | - | 14,057,957 | - | - |
| Construction in progress | 11,708,005 | 5,938,928 | 17,646,933 | 29,555,289 | - |
| Total capital assets | 211,183,264 | 194,630,705 | 405,813,969 | 102,936,047 | - |
| Total noncurrent assets | 213,249,068 | 198,115,248 | 411,364,316 | 103,143,180 | - |
| Total assets | 333,660,609 | 234,443,142 | 568,103,751 | 123,313,519 | 265,123 |
| LIABILITIES | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | 5,800,251 | 1,245,981 | 7,046,232 | 1,346,867 | - |
| Incurred but not reported self-insurance claims | 2,295,000 | - | 2,295,000 | - | - |
| Accrued liabilities | 2,630,688 | 219,645 | 2,850,333 | 14,733,476 | - |
| Accrued bond interest | 214,105 | 429,031 | 643,136 | 2,907,746 | - |
| Unearned revenue | 50,494,325 | - | 50,494,325 | 49,835 | - |
| Current portion of bonds payable | 12,242,971 | 2,179,781 | 14,422,752 | - | - |
| Current portion of capital lease obligations | 902,930 | - | 902,930 | - | - |
| Current portion of compensated absences | 3,903,180 | 413,224 | 4,316,404 | 2,412,349 | - |
| Current portion of landfill closure | 76,304 | - | 76,304 | - | - |
| Current portion of contractual obligations | - | 152,966 | 152,966 | - | - |
| Current portion of early retirement liability | - | - | - | 167,429 | - |
| Total current liabilities | 78,559,754 | 4,640,628 | 83,200,382 | 21,617,702 | - |
| Noncurrent Liabilities: | | | | | |
| Bonds payable | 132,255,093 | 36,726,707 | 168,981,800 | - | - |
| Capital lease obligations | 1,836,239 | - | 1,836,239 | - | - |
| Compensated absences | 1,182,293 | 84,824 | 1,267,117 | 1,835,768 | - |
| Deposits | - | 178,907 | 178,907 | - | - |
| Capacity fee credits | - | 415,756 | 415,756 | - | - |
| Liability for landfill closure | 2,527,310 | - | 2,527,310 | - | - |
| Liability for early retirement program | - | - | - | 1,060,823 | - |
| Long-term contractual obligations | - | 640,041 | 640,041 | - | - |
| Total noncurrent liabilities | 137,800,935 | 38,046,235 | 175,847,170 | 2,896,591 | - |
| Total liabilities | 216,360,689 | 42,686,863 | 259,047,552 | 24,514,293 | - |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 65,019,988 | 154,625,394 | 219,645,382 | 102,936,047 | - |
| Restricted for: | | | | | |

COUNTY OF HANOVER, VIRGINIA

Governmental Funds

Balance Sheet

June 30, 2008

| | Capital Funds | | | Other | Total |
|---|----------------------|---------------------|---------------------|--------------------|--------------------|
| | General | County Improvements | School Improvements | Governmental Funds | Governmental Funds |
| ASSETS | | | | | |
| Cash, cash equivalents and investments | \$ 34,163,812 | 18,126,844 | - | 616,521 | 52,907,177 |
| Receivables (net of allowances for uncollectibles) | 60,652,733 | 772,546 | 416,280 | 724,966 | 62,566,525 |
| Due from other funds | 361,328 | - | - | - | 361,328 |
| Inventories | 29,114 | - | - | - | 29,114 |
| Cash, cash equivalents and investments - restricted | - | 770,022 | 1,266,404 | - | 2,036,426 |
| Total assets | <u>\$ 95,206,987</u> | <u>19,669,412</u> | <u>1,682,684</u> | <u>1,341,487</u> | <u>117,900,570</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 1,126,529 | 1,396,677 | 2,636,527 | 494,701 | 5,654,434 |
| Accrued liabilities | 2,238,697 | - | - | 318,441 | 2,557,138 |
| Due to other funds | - | - | 361,328 | - | 361,328 |
| Deferred revenue | 54,389,849 | - | - | - | 54,389,849 |
| Total liabilities | <u>57,755,075</u> | <u>1,396,677</u> | <u>2,997,855</u> | <u>813,142</u> | <u>62,962,749</u> |
| Fund Balances: | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 460,129 | 9,384,810 | 739,071 | 21,345 | 10,605,355 |
| Inventory | 29,114 | - | - | - | 29,114 |
| Grant programs | 410,417 | - | - | 7,000 | 417,417 |
| Debt service | - | 770,022 | - | - | 770,022 |
| Total reserved | <u>899,660</u> | <u>10,154,832</u> | <u>739,071</u> | <u>28,345</u> | <u>11,821,908</u> |
| Unreserved, reported in: | | | | | |
| Designated for specific purposes (Note V-B) | | | | | |
| General Fund | 12,425,409 | - | - | - | 12,425,409 |
| Capital Improvement Funds | - | 8,013,824 | - | - | 8,013,824 |
| Undesignated, reported in | | | | | |
| General Fund | 24,126,843 | - | - | - | 24,126,843 |
| Capital Improvement Funds | - | 104,079 | (2,054,242) | - | (1,950,163) |
| Other Governmental Funds | - | - | - | 500,000 | 500,000 |
| Total unreserved | <u>36,552,252</u> | <u>8,117,903</u> | <u>(2,054,242)</u> | <u>500,000</u> | <u>43,115,913</u> |
| Total fund balances | <u>37,451,912</u> | <u>18,272,735</u> | <u>(1,315,171)</u> | <u>528,345</u> | <u>54,937,821</u> |
| Total liabilities and fund balances | <u>\$ 95,206,987</u> | <u>19,669,412</u> | <u>1,682,684</u> | <u>1,341,487</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|-----------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | \$ 210,981,390 |
| Receivables on the statement of net assets that do not provide current financial resources are not reported in the funds. | 3,895,528 |
| Prepaid postemployment healthcare benefits represent irrevocable payments made to the Retiree Medical Benefits Trust for retiree healthcare benefits in advance of total actuarial requirements to date. The advance payments are reported in the statement of net assets as a noncurrent asset, but as expenditures in the funds when made. | 29,378 |
| Internal Service Funds are used by management to charge the costs of fleet management and health insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | 2,456,424 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (155,000,621) |
| Net assets of governmental activities | <u>\$ 117,299,920</u> |

COUNTY OF HANOVER, VIRGINIA

Statement of Fiduciary Net Assets

June 30, 2008

| | Retiree Medical Benefits Trust | Agency Funds |
|---|---|-----------------------------|
| | <u> </u> | <u> </u> |
| ASSETS | | |
| Cash, cash equivalents and investments | \$ 730,310 | \$ 2,358,277 |
| Accounts receivable | - | 15,783 |
| Total assets | <u>\$ 730,310</u> | <u>\$ 2,374,060</u> |
| LIABILITIES | | |
| Accounts payable | \$ - | \$ 747,123 |
| Accrued liabilities | - | 91,819 |
| Deposits | - | 1,535,118 |
| Total liabilities | <u>-</u> | <u>\$ 2,374,060</u> |
| NET ASSETS | | |
| Held in trust for other postemployment benefits | <u>\$ 730,310</u> | |

The notes to the financial statements are an integral part of this statement.

COUNTY OF HANOVER, VIRGINIA
 Retiree Medical Benefits Trust Fund
 Statement of Changes in Plan Net Assets
 For the Period Ended June 30, 2008

| | Retiree Medical Benefits Trust |
|--|---|
| ADDITIONS | |
| Contributions - employer | \$ 730,105 |
| Investment income - interest | 205 |
| Total additions | 730,310 |
| Net increase in plan net assets | 730,310 |
| Net assets held in trust for other postemployment benefits | |
| Beginning of period | - |
| End of period | \$ 730,310 |

The notes to the financial statements are an integral part of this statement.

G. Postemployment healthcare plan and Other Postemployment Benefits (OPEB) Trust

In addition to the pension benefits described in note V-F, the County provides for optional participation by eligible retirees and their eligible spouses and dependents, in the medical and prescription drug healthcare benefit program available to employees. Pursuant to Code of Virginia Section 15.2-1544 et seq. the County adopted the Hanover County, Virginia Retiree Medical Benefits Plan (Plan), an agent multiple-employer defined benefit healthcare plan, and the Hanover County, Virginia Retiree Medical Benefits Trust Agreement (Trust) effective June 11, 2008. The Plan covers only eligible retirees of the reporting entity, the Pamunkey Regional Library and the Pamunkey Regional Jail Authority, hereinafter referred to as Affiliates. The Trust provides the funding mechanism for the postemployment healthcare benefits established by the Plan. The Code of Virginia assigns the authority to administer the Plan, and to establish and amend the benefit provisions of the Plan, to the Hanover County Board of Supervisors (Board). The Plan provides for biennial reviews of benefit provisions based on actuarial analysis, but does not require any automatic or ad hoc benefit increases, although the Board may amend or terminate the Plan at any time. The Trust's accumulated assets may legally be used to pay all plan benefits provided to any of the plan's members or beneficiaries. The Trust is considered part of the County of Hanover's financial reporting entity and is included in the County's financial statements as an Other Postemployment Benefits Trust Fund. Accordingly, audited financial statements are not separately available.

a. Summary of significant accounting policies

Basis of accounting and accounting period – The Trust’s financial statements are prepared using the accrual basis of accounting. Employer contributions to the Trust are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The accompanying Statement of Changes in Plan Net Assets for the Retiree Medical Benefits Trust presents the results of operations of the Trust for the period June 11, 2008 (inception) through June 30, 2008. Beginning with fiscal year 2009, the Trust will report a full fiscal year of activity.

Valuation of investments – Investments are reported at fair value. At fiscal year-end, the Trust’s assets were invested in the Commonwealth Cash Reserve Fund Prime Portfolio institutional class shares (Portfolio). Investments in the Portfolio are valued at the June 30, 2008 share price of \$1 per share, which is the price at which the investments could be liquidated on that date.

b. Plan description, contribution and funding information

Membership - The Plan covers all employees of the reporting entity and its Affiliates (Employers) who retire and meet certain eligibility requirements. At July 1, 2007, the date of the initial biennial actuarial valuation, membership in the Plan consisted of the following:

| | Primary Government and Affiliates | School Component Unit | Total |
|---|--|-----------------------------|-------|
| Retirees and beneficiaries receiving benefits | 28 | 120 | 148 |
| Terminated employees entitled to, but not yet receiving, benefits | - | - | - |
| Active employees | 1,261 | 2,635 | 3,896 |
| Total number of plan members | 1,289 | 2,755 | 4,044 |
| Number of participating employers | 4 | 1 | 5 |

Plan description - The Plan provides that the Employers will provide certain subsidies toward the cost of the health benefit coverage of eligible retirees, spouses and dependents. In order to participate in the Plan, retirees must be enrolled in the health insurance program available to Hanover County employees at date of separation. In addition, participants must meet the Virginia Retirement System (VRS) retirement age and service retirement requirements, and, if hired after September 30, 2007, must have five years of service with an Employer, or retire pursuant to the disability requirements of Social Security or the VRS. Beginning in fiscal year 2008, the amount of monthly subsidy provided by the Plan is based on years of service and ranges from \$100 per month for employees with 10 but less than 15 years of service to \$200 per month for 20 or more years of service. The subsidy for a retiree’s spouse and dependents are equal to that of the retiree, with a limit of three subsidies per retiree. Retirees hired prior to October 1, 2007 have no years of service requirement, but must meet all other requirements for participation. In addition, retirees hired prior to October 1, 2007, who have at least ten years of service with an Employer and whose age and years of service equal at least 60 (grandfathered employees) will receive an initial subsidy of \$251 per month. For employees retiring after September 30, 2008, subsidies will end with Medicare eligibility.

Retirees under the Plan may select from the health care plans offered to active employees and pay the health insurance premium rate established annually based on biennial actuarial analysis of the claims cost of the retiree group, net of the applicable subsidy established by the Plan. Depending upon the health care plan selected, the net retiree premium amounts range from \$371 to \$621 per month, and for those electing retiree and spouse coverage, from \$626 to \$1,864 per month. Costs of administering the Plan will be borne by the Trust or by the Employers.

Contributions - The Code of Virginia permits the County Board of Supervisors to make appropriations to fund the Trust, and to enter into agreement with its School Component Unit and its Affiliates to participate in and contribute to the Trust. Contributions to the Trust are irrevocable; however, continued participation in the Plan is voluntary, and any Employer may individually terminate future participation in the Plan. Retirees are not required to contribute to the Plan.

Funding policy - The Board of Supervisors has adopted a resolution under which the Employers will contribute funds to the Trust periodically, as determined appropriate based on periodic actuarial analysis of the future obligations of the Employers.

Annual OPEB cost - The Employers' OPEB cost (expense) under the Plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of the Governmental Accounting Standards Board Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Information related to the reporting entity's annual OPEB cost, ARC, actual contributions, and changes to the net OPEB obligation (asset) for fiscal year 2008 is as follows:

| | 2008 | Percentage of annual OPEB cost contributed |
|--|---------------------|--|
| ARC, for the year ended June 30 | \$ 1,157,094 | |
| Interest on Net OPEB obligation (asset) from prior year | - | |
| Actuarial adjustment | - | |
| Annual OPEB cost | <u>1,157,094</u> | |
| Employer contributions: | | |
| To OPEB trust | (730,105) | 63.1% |
| Subsidies paid under Plan on behalf of retirees | (663,500) | 57.3% |
| Total Employer contributions | <u>(1,393,605)</u> | <u>120.4%</u> |
| (Increase) decrease in the net OPEB obligation (asset), for the year ended June 30 | (236,511) | |
| Net OPEB obligation (asset), beginning of year | - | |
| Net OPEB obligation (asset), end of year | <u>\$ (236,511)</u> | |

Funded Status - The funded status of the Plan as July 1, 2007, the date of the most recent actuarial valuation, was as follows:

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (c) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---------------------------------------|-------------------------|----------------------|---------------------|---|
| 7/1/2007 | \$ - | \$ 10,040,245 | \$ 10,040,245 | 0.0% | \$ 156,195,205 | 6.4% |

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 multiyear trend information that shows 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 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 7.0 percent annual investment rate of return (net of administrative expenses), including an inflation assumption of 2.5% and an annual healthcare cost trend rate consisting of assumed growth in the retiree subsidies of 3.0 percent annually, until the maximum monthly subsidy of \$753 is reached. The initial unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis over thirty years.

REQUIRED SUPPLEMENTARY INFORMATION
Hanover County Retiree Medical Benefits Trust
Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (c) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---------------------------------------|-------------------------|----------------------|---------------------|---|
| 7/1/2007 | \$ - | \$ 10,040,245 | \$ 10,040,245 | 0.0% | \$ 156,195,205 | 6.4% |

Prince William County Public Schools

**Prince William County Public Schools
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Assets
As of June 30, 2008**

Exhibit 4

Total fund balances - governmental funds \$ 171,934,967

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements.

| | | |
|----------------------------|----------------------|-------------|
| Land | \$ 54,696,969 | |
| Construction in progress | 58,191,545 | |
| Library books | 3,695,679 | |
| Buildings and improvements | 895,230,624 | |
| Equipment | 23,030,195 | |
| Vehicles | <u>70,237,885</u> | |
| Total capital assets | 1,105,082,897 | |
| Accumulated depreciation | <u>(244,361,837)</u> | 860,721,060 |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds

| | | |
|--------------------------------|--------------------|--------------|
| Compensated absences | (24,245,196) | |
| Other post employment benefits | <u>(1,677,000)</u> | |
| Other liabilities | <u>(1,255,624)</u> | (27,177,820) |

Net Assets of internal service funds. 19,119,679

Net assets - governmental activities \$ 1,024,597,886

**Prince William County Public Schools
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008**

Exhibit 6

Total net change in fund balances - total governmental funds \$ (33,563,083)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the period:

| | | |
|----------------------|---------------------|------------|
| Capital outlays | \$ 107,858,232 | |
| Depreciation expense | <u>(23,756,256)</u> | 84,101,976 |

The net effect of various transactions including disposal of capital assets. (1,363,674)

Some expenses reported in the Statement of Activities, such as compensated absences and other post employment benefits, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (3,308,960)

Activities of Internal Service Funds that serve governmental activities (1,020,898)

Change in net assets of governmental activities \$ 44,845,361

Note 6 – Self-Insurance

PWCS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which PWCS carries commercial insurance. PWCS established a limited risk management program for workers' compensation. Premiums are paid into the Self-Insurance internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program.

PWCS participates in a Consortium Group Health Insurance Program made up of employers who provide health insurance to their employees and dependents under one program. Each participant in the program is separately rated and has separate accounting. Anthem Blue Cross/Blue Shield is the plan administrator. Delta Dental Plan of Virginia, Inc. (Delta Dental) is the dental insurance carrier. All full-time and part-time employees who are working at least 17 1/2 hours per week are eligible to enroll in the health insurance program. There are three (3) plans offered through the PWCS insurance program. An employee may choose either the HMO plan called "Healthkeepers Product 20", or one of the two PPO plans offered, "KeyCare 15 Plus" or the "KeyCare 20". All three plans include comprehensive medical, preventive care, vision, and prescription drug coverage. The basis for estimating incurred but not reported claims at year-end is an annual analysis performed by the plan's administrator. For the fiscal year ended June 30, 2008 PWCS incurred \$47,116,429 in self-insured health insurance claims.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of payouts), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. PWCS Self-Insurance, covering the risks of loss, has \$350,000 per occurrence retention and purchases excess insurance coverage which covers individual claims with a \$25,000,000 limit. There have been no significant reductions in insurance coverage in the prior year, and settlements have not exceeded coverage for each of the past three fiscal years.

The following illustration presents a reconciliation of the changes in the aggregate liabilities for claims for the current and prior years. These claims liabilities are included in Long-term liabilities in the government-wide statement of net assets.

Changes in aggregate liabilities for claims are as follows:

| | Health Insurance | Risk <u>Management</u> |
|-----------------------------|------------------|---------------------------|
| Unpaid Claims June 30, 2006 | \$ 3,992,296 | 968,427 |

| | | |
|-----------------------------|---------------------|--------------------|
| Incurred Claims | 42,701,261 | 1,932,504 |
| Claims Paid | <u>(42,196,539)</u> | <u>(1,280,372)</u> |
| Unpaid Claims June 30, 2007 | <u>4,497,018</u> | <u>1,620,559</u> |
| Incurred Claims | 47,116,429 | 2,130,813 |
| Claims Paid | <u>(45,816,004)</u> | <u>(1,645,152)</u> |
| Unpaid Claims June 30, 2008 | <u>\$ 5,797,443</u> | <u>2,106,220</u> |

Unpaid claims, compensated absences and other postemployment benefits (see Note 10) reconcile to the statement of net assets as follows:

| | Health Insurance Fund | Self- Insurance Fund | Compensated Absences | Other Post- Employment Benefits | Total |
|------------------------------|-----------------------------|----------------------------|-------------------------|---------------------------------------|-------------------|
| Due within one year | \$5,797,443 | 954,846 | 7,112,482 | | 13,864,771 |
| Due in more than one year | | <u>1,151,374</u> | <u>17,132,714</u> | <u>1,677,000</u> | <u>19,961,088</u> |
| Total | <u>\$5,797,443</u> | <u>2,106,220</u> | <u>24,245,196</u> | <u>1,677,000</u> | <u>33,825,859</u> |

Note 10 Other Postemployment benefits

Plan Description:

Other postemployment benefits provided by PWCS include a single-employer defined benefit self-insurance medical plan and a retiree health insurance premium contribution plan that cover retirees until they reach 65 years of age. There is no coverage for retirees or their spouses once they attain age 65. Both plans were established under the authority of the Prince William County School Board (School Board). Any amendments to the plans must be approved by the School Board.

The PWCS single-employer self-insurance medical plan allows retirees under age 65 to remain in the same medical and dental plan as active employees. Current membership is 455.

The PWCS retiree health insurance premium contribution plan allows eligible retirees to have the option to exchange their accrued, unused sick leave for a School Board contribution to offset the cost of the PWCS health insurance premiums in retirement. The retiring employee must be between the ages of 55 and 65, have a minimum of 125 days of accrued sick leave, be currently enrolled in the PWCS group health insurance plan, and meet the service requirements to participate in the PWCS Retirement Opportunity Program.

The School Board will pay between 25 to 100 percent of the amount contributed by retirees who enrolled in the school division's post-retirement medical plan depending on the number of sick leave days exchanged. The plan became effective on July 1, 2000. Current membership is 177.

Summary of Significant Accounting Policies:

Postemployment healthcare expenditures, depending on the number of sick leave days exchanged, are made from the Health Insurance Fund, which is maintained on the full accrual basis of accounting. These expenditures are paid as they come due.

Funding Policy:

The School Board establishes employer contribution rates for plan participants and determines how the plan will be funded as part of the budgetary process each year. Retirees pay the full

budgeted rates for coverage under the medical plan. The School Board has chosen to fund the healthcare benefits on a pay as you go basis.

Annual OPEB Cost and Net OPEB Obligation:

The annual cost of other post employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay as you go cost for OPEB benefits is \$1,865,000 for fiscal year 2008. The annual employer contributions for fiscal year 2008 were \$2,953,201. The annual benefit cost for fiscal year 2008 was \$5,950,188.

The School Board has elected not to pre-fund OPEB liabilities. The School Board is required to contribute 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 School Board's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the School Board's net OPEB obligation for the healthcare benefits:

| | |
|--|---------------------|
| Annual required contribution | \$ 3,542,000 |
| Interest on net OPEB obligation | . |
| Adjustment to annual required contribution | . |
| Annual OPEB cost (expense) | 3,542,000 |
| Estimated Contributions made | . |
| Increase (decrease) in net OPEB obligation | (1,865,000) |
| Net OPEB obligation, beginning of year | . |
| Net OPEB obligation, end of year | <u>\$ 1,677,000</u> |

Trend Information:

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2008 were as follows:

| Fiscal Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------------|-------------------------|---|----------------------------|
| June 30, 2008 | \$3,542,000 | 52.6 % | \$1,677,000 |

Funded Status and Funding Progress:

As of July 1, 2006, the most recent actuarial valuation date, the plan was 0 percent funded. The actuarial accrued liability for benefits was \$32,965,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$32,965,000. For the fiscal year ended June 30, 2008, the covered payroll (annual payroll of active employees covered by the plan) was \$501,845,363, and the ratio of the UAAL to the covered payroll was 6.6 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 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 revisions 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 trend information that shows 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 July 1, 2006 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions include a 5.0 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 healthcare cost trend rate of 10.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after nine years. Both rates include a 2.5 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 percentage of projected payroll of 2.5 percent based on a zero population growth assumption. The open amortization method and a 30 year amortization period are being used. The remaining amortization period at July 1, 2006, was 30 years.

Required Supplementary Information

A schedule of funding progress for the Virginia Retirement System is provided in the illustration below:

Virginia Retirement System
Schedule of Funding Progress for PWCS

| Actuarial Validation Date June 30 | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------------|---------------------------------|-----------------------------------|---|--------------|-----------------|---|
| 2002 | \$65,439,864 | \$59,481,428 | \$(5,958,436) | 110.02% | \$28,150,039 | (21.17)% |
| 2003 | 67,150,184 | 67,302,413 | 152,229 | 99.77% | 32,863,934 | .46% |
| 2004 | 68,955,014 | 76,461,317 | 7,506,303 | 90.18% | 36,584,066 | 20.52% |
| 2005 | 73,434,081 | 89,566,018 | 16,131,937 | 81.99% | 40,599,997 | 39.73% |
| 2006 | 80,602,356 | 94,242,745 | 13,640,389 | 85.53% | 44,148,347 | 30.90% |
| 2007 | 93,336,253 | 109,664,238 | 16,327,985 | 85.11% | 48,077,577 | 33.96% |

A schedule of funding progress and a schedule of employer contributions for the Post-

retirement Medical and the Retiree Health Insurance Premium Contribution plan are provided in the illustrations below:

Virginia Retirement System Health Insurance Credit Program
 Schedule of Funding Progress for PWCS

| Actuarial Validation Date June 30 | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|-----------------------------------|---------------------------------|-----------------------------------|---|--------------|-----------------|---|
| 2007 | \$291,434 | \$2,269,438 | \$1,978,004 | 12.8% | \$49,111,630 | 4.0% |

Prince William County Schools Post-retirement Medical and Retiree Health Insurance Premium Contribution Plan
 Schedule of Employer Contributions

| Fiscal Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|---------------------------|------------------------------|------------------------|
| 2008 | \$3,542,000 | 52.6% |

Loudoun County

Exhibit I

COUNTY OF LOUDOUN, VIRGINIA STATEMENT OF NET ASSETS AS OF JUNE 30, 2008

| | <u>Primary Government Governmental Activities</u> | <u>Component Unit School Board</u> | <u>Total Reporting Entity</u> |
|---|---|--|---------------------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 294,365,324 | \$ 149,900,484 | \$ 444,265,808 |
| Cash and Investments with Fiscal Agents | 182,763,001 | 94,523,885 | 277,286,886 |
| Receivables, Net: | | | |
| Taxes: | | | |
| Delinquent | 23,657,997 | - | 23,657,997 |
| Not Yet Due | 393,926,384 | - | 393,926,384 |
| Accounts | 4,852,965 | 1,033,177 | 5,886,142 |
| Due from Other Governments | 38,044,553 | 10,901,662 | 48,946,215 |
| Advances to Employees | 65,350 | 213 | 65,563 |
| Inventory of Supplies | 524,856 | 594,125 | 1,118,981 |
| Prepaid Items | 1,628,040 | 284,413 | 1,912,453 |
| Notes and Loans Receivable, Net | 3,731,794 | - | 3,731,794 |
| Capital Assets: | | | |
| Non-depreciable | 219,653,422 | 457,644,470 | 677,297,892 |
| Depreciable, Net | <u>462,503,488</u> | <u>640,711,864</u> | <u>1,103,215,352</u> |
| Capital Assets, Net | <u>682,156,910</u> | <u>1,098,356,334</u> | <u>1,780,513,244</u> |
| Total Assets | <u>1,625,717,174</u> | <u>1,355,594,293</u> | <u>2,981,311,467</u> |
| LIABILITIES | | | |
| Accounts Payable | 20,778,431 | 18,189,317 | 38,967,748 |
| Accrued Interest Payable | 10,506,424 | 669,269 | 11,175,693 |
| Accrued Liabilities | 9,910,842 | 43,942,677 | 53,853,519 |
| Prepaid Revenue | 2,950,680 | - | 2,950,680 |
| Unearned Revenue: | | | |
| Property Taxes Not Yet Due | 393,926,384 | - | 393,926,384 |
| Other | 4,529,924 | 1,129,597 | 5,659,521 |
| Other Liabilities | 8,233,495 | 43,103 | 8,276,598 |
| Long-term Liabilities: | | | |
| Due Within One Year: | | | |
| Compensated Absences | 974,696 | 1,018,302 | 1,992,998 |
| Claims Liabilities | 11,325,076 | - | 11,325,076 |
| Bonds Payable | 74,302,946 | - | 74,302,946 |
| Bonds Premium | 4,499,004 | - | 4,499,004 |
| Leases Payable | 9,194,348 | 9,210,454 | 18,404,802 |
| Due in More Than One Year: | | | |
| Compensated Absences | 17,769,462 | 14,554,357 | 32,323,819 |
| Claims Liabilities | 4,088,764 | - | 4,088,764 |
| Landfill Closure and Postclosure Care Costs | 6,942,576 | - | 6,942,576 |
| Net OPEB Obligation | <u>13,273,788</u> | <u>40,389,848</u> | <u>53,663,636</u> |
| Bonds Payable | 844,977,247 | - | 844,977,247 |
| Bonds Premium | 33,131,069 | - | 33,131,069 |
| Leases Payable | <u>46,456,097</u> | <u>15,179,364</u> | <u>61,635,461</u> |
| Total Liabilities | <u>1,517,771,253</u> | <u>144,326,288</u> | <u>1,662,097,541</u> |
| NET ASSETS | | | |
| Invested in Capital Assets, Net of Related Debt | 489,278,522 | 1,073,966,516 | 743,562,715 A |
| Restricted for: | | | |
| Capital Projects | 120,692,734 | 93,039,260 | 213,731,994 |
| Cafeteria Sales | - | 949,381 | 949,381 |
| Permanent Fund-Expendable | 3,185 | - | 3,185 |
| Permanent Fund-Nonexpendable | 35,721 | - | 35,721 |
| Unrestricted | <u>(502,064,241)</u> | <u>43,312,848</u> | <u>360,930,930 A</u> |
| Total Net Assets | \$ 107,945,921 | \$ 1,211,268,005 | \$ 1,319,213,926 |

A The sum of the columns does not equal the Total Reporting Entity column by a difference of \$819,682,323 because the debt related to the School Board Component Unit is reflected in the primary government's governmental activities column reducing unrestricted net assets. The assets are reflected in the School Board Component Unit column as Invested in Capital Assets, net of related debt. The Total Reporting Entity column matches the asset with the debt and reports the net amount on the Invested in Capital Assets, net of related debt line.

See accompanying notes to the financial statements.

Exhibit IV

**COUNTY OF LOUDOUN, VIRGINIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS FUND BALANCE
TO THE STATEMENT OF NET ASSETS GOVERNMENTAL ACTIVITIES NET ASSETS
AS OF JUNE 30, 2008**

Fund balances - total governmental funds \$ 455,964,921

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

| | | |
|-------------------------------|----------------------|-------------|
| Governmental capital assets | 810,481,220 | |
| Less accumulated depreciation | <u>(147,749,203)</u> | 662,732,017 |

Delinquent taxes and other long-term assets not available to pay for current period

expenditures are deferred in the governmental funds.
9,060,520

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.

| | | |
|---|----------------------------|-----------------|
| Compensated absences | (18,744,158) | |
| Landfill closure and postclosure care costs | (6,942,576) | |
| Net OPEB Obligation | <u>(13,273,788)</u> | |
| Governmental bonds payable | (919,280,193) | |
| Governmental leases payable | (55,650,445) | |
| Unamortized bond premium | <u>(37,630,073)</u> | (1,051,521,233) |

Interest on long-term liabilities is not accrued in the governmental funds, but is rather recognized as an expenditure when due.

(10,506,424)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are

included in governmental activities in the Statement of Net
Assets.
42,216,120

Net Assets of Governmental Activities

\$ 107,945,921

See accompanying notes to the financial statements.

**COUNTY OF LOUDOUN, VIRGINIA
RECONCILIATION OF CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Net change in fund balances - total governmental funds **\$ (15,519,420)**

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit II) are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.

| | | |
|---------------------------------|---------------------|------------|
| Expenditures for capital assets | 36,744,321 | |
| Less current year depreciation | <u>(18,123,683)</u> | 18,620,638 |

In the Statement of Activities, only the gain (loss) on capital assets is reported while in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital asset.

(362,840)

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are *not* financial resources

33,800,351

Donations of capital assets to Component Unit decreases net assets in the statement of activities, but do not appear in the governmental funds because they are not financial uses.

(8,227,500)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|---|--|-------------|
| Change in deferred revenue related to taxes | | (1,503,511) |
|---|--|-------------|

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

| | | |
|---|------------------|------------|
| Principal payments | 79,752,802 | |
| Net debt proceeds and issuance premium | (13,185,654) | |
| Current year amortization of bond premium | <u>4,758,772</u> | 71,325,920 |

Expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are *not* reported as expenditures in governmental funds

| | | |
|---|---------------------|--------------|
| Change in compensated absences liability | (1,773,061) | |
| Change in landfill closure/post-closure liability | (426,286) | |
| Change in Net OPEB Obligation | (13,273,788) | |
| Change in accrued interest liability | <u>232,661</u> | (15,240,474) |

Internal service funds are used by management to charge the Costs of Certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

6,106,047

Change in Net Assets of Governmental Activities **\$ 88,999,211**

See accompanying notes to the financial statements.

NOTE IX — OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLANS

Background

1. Beginning in fiscal year 2008, the County of Loudoun implemented Governmental Accounting Standards Board (GASS) Statement No. 45 for other post-employment benefits (OPEB) offered to retirees. This standard addresses how local governments should account for and report their costs related to post-employment health care and other non-pension benefits, such as the County's retiree health benefit subsidy. Historically the County's subsidy was funded on a pay-as-you-go basis but GASB 45 requires that the County accrue the cost of the retiree health subsidy and other post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the County. This funding methodology mirrors the funding approach used for pension benefits.

2. Plan Description

The County of Loudoun administers a single-employer defined benefit healthcare plan ("the Plan"). The Plan provides healthcare insurance for eligible retirees and their spouses through the County's group health insurance plan, which covers both active and retired members. Employer contribution rates for retirees vary based on the type of retirement, years of service, and type of coverage. The Plan does not issue a publicly available financial report but OPEB benefit expenses are reflected in the internal service fund in the County's Comprehensive Annual Financial Report (CAFR). The CAFR may be obtained by writing to Mark D. Adams, Director of Management and Financial Services, County of Loudoun, Virginia, 1 Harrison Street, SE, 4th Floor — MSC #41, Leesburg, VA 20176. The telephone number is (703) 777-0290 and the Counts/s web site is at www.loudoun.gov.

3. Funding Policy

The contribution requirements of plan members of the County are established and may be amended by the Board of Supervisors. Retired employees of the County who participate in the retiree medical plans pay a percentage, based on years of service, of 90% of the full, active premium rate to continue coverage. The following are the 2007 retiree health care contribution rates, based on years of service.

| Health Plan Tier | Years of Service | | | | |
|-------------------|------------------|--------|---------|--------|---------|
| | 25+ | 20 -24 | 15 - 19 | 10 -14 | Than 10 |
| Employee | \$53 | \$149 | \$341 | \$437 | \$533 |
| Employee + Spouse | \$160 | \$341 | \$704 | \$886 | \$1,067 |
| Post Medicare/Mem | \$0 | \$48 | \$240 | \$336 | \$480 |

In addition to the above amounts, retirees of the Component Unit-Schools (the Schools) will contribute an amount equal to the State's Health Care Credit. The State's Health Care Credit is \$4.00 per month per year of service for professional employees.

As of July 1, 2007, the date of the latest actuarial valuation, retirees and their beneficiaries from the Primary Government and the Component Unit-Schools, 195 and 500 respectively, were receiving OPEB and 3,063 active employees from the County and 8,401 active employees from the Schools are eligible to receive future benefits under the OPEB Plan.

4. Annual OPEB Cost and Net OPEB Obligation

The County is required to contribute 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 current employer contribution rates for the County and the Schools are 13.23 percent and 9.18 percent, respectively.

The County and the Schools' annual OPEB cost and the net OPEB obligation based on a 4.0% discount rate, including an inflation component of 2.5%, and amortizing the initial unfunded actuarial liability over 30 years based on a level percent of payroll method for 2008 is as follows:

| | Primary Government | Component Unit – Schools |
|--|---------------------|--------------------------|
| Discount Rate | 4% | 4% |
| Annual Required Contribution (ARC) | \$15,297,727 | \$44,484,651 |
| Interest on Net OPEB Obligation | 0 | 0 |
| Adjustment to Annual Required Contribution | 0 | 0 |
| Annual OPEB Cost (expense) | \$15,297,727 | \$44,484,651 |
| Estimated Pay-As-You-Go Annual Employer Contribution | (2,023,939) | (4,085,803) |
| Net Cash Contribution | 0 | 0 |
| Net OPEB Obligation, End of Year | \$13,273,788 | \$40,398,848 |
| Actual Contribution Rate | 13.23% | 9.18% |

5. 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.

The valuation of the liabilities as of July 1, 2007 is based on a closed group. Current employees and retirees only are considered; no provision is made for future hires. Using the actuarial assumptions, the number of retired participants is projected each year in the future. Costs are projected for each future year at each age using the trend and aging assumptions. Retiree post employment benefit expenses are determined under the Projected Unit Credit actuarial cost method. Under this method, benefits are projected for life and their present value is determined.

On April 1, 2008 the County Board of Supervisors approved the establishment of \$10,000,000 trust fund which will be reported in Pension Fund. The County is in the process of setting up this trust.

Required Supplemental Information

Exhibit XVII

**COUNTY OF LOUDOUN VIRGINIA
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION**

| | | (1) | (2) | (3) | (4) | (5) | (6) |
|--------------------|---|--|--|--|-------------------------------------|---------------------------------------|--|
| | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) (2)-(1) | Funded Ratio (1)/(2) | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll (2)-(1)/(5) |
| Primary Government | 06/30/2007 | . | 138,900,336 | 138,900,336 | 0.00% | 149,394,123 | 92.98% |
| Component Unit | 6/30/2007 | . | 348,055,997 | 348,055,997 | 0.00% | 272,160,968 | 127.89% |

The County is implementing GASB 45 in Fiscal Year 2008; therefore, six years of data is not available, but will be accumulated over time. This valuation has been calculated using the Projected Unit Credit Actuarial Cost Method, discount rates of 4.0%, and the initial unfunded actuarial liability is amortized over 30 years based on a level percent of payroll method. Under this method, benefits are projected for life and their present value is determined, the present value S divided into equal parts, which are earned over the period from date of hire to the full eligibility date.