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INVOICE WITH YOUR PAYMENT

September 6, 2017

Ms. Amy Oland
Assistant Director of Finance
Town of Chapel Hill
405 Martin Luther King Jr. Blvd.
Chapel Hill, NC 27514

Re: Invoice for the June 30, 2017 Net OPEB Obligation for the Health Care Plan of the Town of Chapel Hill

Dear Ms. Oland:

We have completed the June 30, 2017 Net OPEB Obligation calculation for the Health Care Plan of the Town of Chapel Hill. The basis for the Annual Required Contribution (ARC) utilized in the calculation was the ARC developed in the December 31, 2014 Actuarial Valuation. The Town has indicated that there have been no changes to the plan, benefit structure or the population. Aforementioned changes subsequent to the December 31, 2014 Actuarial Valuation would require an updated Actuarial Valuation ARC be used in the Net OPEB Obligation calculation.

The fee for this service is \$500.00. The Town of Chapel Hill should send a check payable to "Cavanaugh Macdonald Consulting, LLC" addressed to my attention at the address shown below.

If any questions should arise, please call us at 678-388-1700.

Sincerely,

Todd B. Green, ASA, FCA, MAAA
Principal and Consulting Actuary

TBG:lcb



SCHEDULE B – ACCOUNTING INFORMATION

GASB Statement No. 43 and GASB Statement No. 45 set forth certain items of required supplementary information to be disclosed in the financial statements of the Town. The following required supplementary information was prepared for illustrative purposes. The Town is responsible for the preparation and fair presentation of its financial statements in accordance with U.S. generally accepted accounting principles and is subject to audit to obtain reasonable assurance the financial statements are free from material misstatement.

Annual OPEB Cost and Net OPEB Obligation for Fiscal Year Ending June 30, 2017	
(A) Employer Annual Required Contribution (ARC)*	\$ 6,484,071
(B) Valuation Discount Rate	4.00%
(C) Interest on Net OPEB Obligation [(B) x (I)]	1,178,678
(D) Amortization Factor	16.2470
(E) Adjustment to Annual Required Contribution	1,813,685
(F) Annual OPEB Cost [(A) + (C) - (E)]	\$ 5,849,064
(G) Employer Contributions Made for Fiscal Year Ending June 30, 2017**	4,733,352
(H) Increase (Decrease) in Net OPEB Obligation [(F) - (G)]	\$ 1,115,712
(I) Net OPEB Obligation Beginning of Fiscal Year	29,466,948
(J) Net OPEB Obligation End of Fiscal Year [(H) + (I)]	\$ 30,582,660

* Based on the ARC from the December 31, 2014 Actuarial Valuation Report. We assumed there have been no changes to the plan, benefit structure or population covered that would require an updated Actuarial Valuation ARC be used.

** Under GASB Statement Nos. 43 and 45, the OPEB liability may include an implicit subsidy amount based upon age adjusted costs reflecting the higher cost of benefits associated with older participants. For the purpose of determining the Net OPEB Obligation (NOO), the portion of the annual OPEB contributions for medical and prescription drug costs that are determined on a combined basis for actives and retirees (in this case the pre-65 retirees) has been increased to include the impact of the 33% implicit subsidy. The total contribution of \$4,733,352 includes \$318,459 due to the impact of the 33% implicit subsidy and actual cash contributions of \$4,414,893 paid by the employer. Correspondingly, in the financial statements, the costs associated with active employee medical and prescription drug benefits may need to be decreased by the same dollar amount to reflect that portion of the active employee contribution subsidizing retiree costs.

Trend Information⁺			
Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2015	\$ 5,517,527	28.7%	\$ 25,098,244
6/30/2016	\$ 5,888,881	25.8%	\$ 29,466,948
6/30/2017	\$ 5,849,064	80.9%	\$ 30,582,660

⁺ Historical information was provided in the Town's June 30, 2016 Annual Financial Report.



**SCHEDULE B – ACCOUNTING INFORMATION
(CONTINUED)**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets [A]	Actuarial Accrued Liability (AAL) [B]	Unfunded AAL (UAAL) [B - A]	Funded Ratio [A / B]	Covered Payroll [C]	UAAL as a Percentage of Covered Payroll [(B - A) / C]
12/31/2005	\$ 0	\$ 45,380,700	\$ 45,380,700	0.0%	\$ 25,322,664	179.2%
12/31/2008	\$ 0	\$ 32,451,498	\$ 32,451,498	0.0%	\$ 32,174,140	100.9%
12/31/2010 ⁺	\$ 0	\$ 64,319,378	\$ 64,319,378	0.0%	\$ 32,549,036	197.6%
12/31/2012 ⁺	\$ 0	\$ 56,370,479	\$ 56,370,479	0.0%	\$ 28,236,336	199.6%
12/31/2014 ⁺	\$ 0	\$ 64,209,641	\$ 64,209,641	0.0%	\$ 26,043,832	246.5%

⁺ The plan is closed to new entrants as of July 1, 2010. The covered payroll displayed excludes members who are ineligible for benefits due to the closure of the Plan.

IMPORTANT DISCLOSURE REQUIREMENTS NOTICE

On June 2, 2015, GASB Statement No. 74 and GASB Statement No. 75 (GASB 74 and 75) were unanimously adopted by the GASB Board. The disclosure requirements of GASB 74 and 75 will be similar to the disclosure requirements for pension benefits under GASB Statement No. 67 and GASB Statement No. 68. GASB 74 relates to accounting disclosures for plan sponsors and, as such, replaces GASB 43 beginning with fiscal years ending June 30, 2017. GASB 75 relates to accounting disclosures for contributing employers and, as such, replaces GASB 45 beginning with fiscal years ending June 30, 2018. GASB 74 and 75 will require applicable OPEB plan sponsors and contributing employers to disclose the net OPEB liability on the statement of financial position and book an accounting expense based upon the entry age normal actuarial cost method. Beyond the use of a specified actuarial cost method, GASB's new disclosure standards will also require the discount rate used to calculate liabilities to be based upon the yield of 20-year, tax-exempt municipal bonds and the expected rate of return on plan assets, to the extent plan assets are projected to be available for the payment of future benefits. Additionally, GASB 74 and 75 will bring about many other changes in the liability valuation and accounting disclosure processes currently in place which are expected to significantly impact data collection, timing, and effort. As details for the new GASB OPEB disclosure standards emerge, planning and coordination between plan sponsors, contributing employers, actuaries, and auditors is recommended.