**City of Brooklyn Center**

**Suggested Notes to Basic Financial Statements**

**December 31, 2014**

**Summary of Significant Accounting Policies**

*Pensions.* For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA’s fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note X. Defined Benefit Pension Plans**

1. **Plan Descriptions**

The City participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes. PERA’s defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

1. General Employees Retirement Fund (GERF)

PERA’s defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353, and 356.

Full-time and certain part-time employees of the City except employees covered by other pension plans are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Public Employees Police and Fire Fund (PEPFF)
The PEPFF, originally established for police officers and firefighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. Effective July 1, 1999, the PEPFF also covers police officers and firefighters belonging to a local relief association that elected to merge with and transfer assets and administration to PERA.

1. **Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

1. GERF Benefits
Benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. PEPFF Benefits

Benefits for the PEPFF members first hired after June 30, 2010, but before July 1, 2014, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. Benefits for PEPFF members first hired after June 30, 2014, vest on a prorated basis from 50% after ten years up to 100% after twenty years of credited service. The annuity accrual rate is 3% of average salary for each year of service. For PEPFF who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

1. **Contributions**

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions
Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014.  Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the City was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members.  In 2015, employer rates increased to 7.5% in the Coordinated Plan. The City’s contributions to the GERF for the year ended December 31, 2014, were $528,666. The City’s contributions were equal to the required contributions for each year as set by state statute.

2. PEPFF Contributions

Plan members were required to contribute 10.8% of their annual covered salary in calendar year 2014. The City was required to contribute 16.20% of pay for PEPFF members in calendar year 2014. The City’s contributions to the PEPFF for the year ended December 31, 2014, were $\_\_\_\_\_\_\_\_. The City’s contributions were equal to the required contributions as set by state statute.

1. **Pension Costs**

1. GERF Pension Costs
At December 31, 2014, the City reported a liability of $6,524,826 for its proportionate share of the GERF’s net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA’s participating employers. At June 30, 2014, the City’s proportion was 0.1389%.

For the year ended December 31, 2014, the City recognized pension expense of $484,372 for its proportionate share of GERF’s pension expense.

At December 31, 2014, the City reported its proportionate share of GERF’s deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

|  |  |  |
| --- | --- | --- |
|  | **Deferred Outflows of Resources** | **Deferred Inflows of Resources** |
| Differences between expected and actual economic experience | $100,136 | $0 |
| Changes in actuarial assumptions | $672,448 | $0 |
| Difference between projected and actual investment earnings | $0 | $1,763,002 |
| Changes in proportion and differences between contributions made and City’s proportionate share of contributions (second part to be determined by the City) | $0 | $0 |
| City’s contributions to GERF subsequent to the measurement date | $263,600 | - |
|  **Total** | **$1,036,184** | **$1,763,200** |

$263,600 reported as deferred outflows of resources related to pensions resulting from City contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2015. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

|  |  |
| --- | --- |
| **Year ended June 30** | **Pension Expense Amount** |
| 2015 | ($183,223) |
| 2016 | ($183,223) |
| 2017 | ($183,223) |
| 2018 | ($440,751) |
| 2019 | $0 |

2. PEPFF

1. **Actuarial Assumptions**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

|  |  |
| --- | --- |
| **Assumptions** | **PERA** |
| Inflation | 2.75% per year |
| Active Member Payroll Growth | 3.50% per year |
| Investment Rate of Return | 7.90%  |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2004, to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The following changes in actuarial assumptions for GERF occurred in 2014: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

PERA’s long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| **Asset Class** | **Target Allocation** | **Long-Term Expected Real Rate of Return** |
| --- | --- | --- |
| Domestic Stocks | 45% | 5.50% |
| International Stocks | 15% | 6.00% |
| Bonds | 18% | 1.45% |
| Alternative Assets | 20% | 6.40% |
| Cash |  2% | 0.50% |
| Total | 100% |  |

1. **Discount Rate**The discount rate used to measure PERA’s total pension liabilities was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.
2. **Pension Liability Sensitivity**The following table presents the City’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 % lower or 1 % higher than the current discount rate:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **1% Decrease in Discount Rate**  | **Discount Rate**  | **1% Increase in Discount Rate**  |
| PERA Discount Rate | 6.9% | 7.9% | 8.9% |
| City’s proportionate share of the GERF net pension liability | $10,518,283 | $6,524,826 | $3,239,151 |
| City’s proportionate share of the PEPFF net pension liability | $ | $ | $ |

1. **Pension Plan Fiduciary Net Position**Detailed information about PERA’s pension funds’ fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**Note XI. Defined Contribution Plan**

[Number of entity employees] [types of entity employees, e.g. council members, school district board members, of the City of Any Town] are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by PERA. The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the [entity] during fiscal year 2015 were:

|  |  |  |
| --- | --- | --- |
| **Contribution Amount** | **Percentage of Covered Payroll** | **Required Rate** |
| **Employee** | **Employer** | **Employee** | **Employer** |
| $XXX | $XXX | 5% | 5% | 5% |