

FINANCIAL AUDIT ADVISORY COMMITTEE

REPORT

Tuesday, October 13, 2015

Present: Ald. Fuller (Chairman), Ald. Danberg, Margaret Albright (School Committee Member), and Tony Logalbo

Also present: David Wilkinson (Comptroller), Sue Dzikowski (Director of Finance; School Department), and Matthew Hunt (CPA; Clifton, Larson, & Allen, LLC)

Update on External Audit

The Committee received an update from Matthew Hunt of Clifton, Larson & Allen (CLA) on this year's ongoing external audit. Mr. Hunt reported that all of the primary fieldwork is almost complete. The audit is on track to meet all deadlines. The City departments he has worked with were helpful, including the departments that are closely involved in the audit.

The majority of the audit fieldwork was complete last week. Mr. Hunt identified the open items, which include claim reports, the Newton Commonwealth Foundation audit report and representation letter, third-party audit confirmations and work related to the City's storm water project. There is some additional work needed on major federal grants and some follow-up with the Inspectional Services Department on the auditor's prior year recommendations related to accounts receivable operations within the department. The Committee expects to follow up on the Inspectional Services Department new online permitting and new options for credit card payments at its December 14, 2015 meeting.

CLA expects to provide the first draft of the Comprehensive Annual Financial Report (CAFR) to Comptroller David Wilkinson sometime between late October and early November with the expectation that the final report will be issued in early to mid-December prior to the Financial Audit Advisory Committee exit conference with CLA (scheduled for December 14). The draft management letter and draft single audit report will also be provided before the exit conference. The final management letter and final single audit report will be issued in late December or early January before CLA meets with the Finance Committee for its exit conference sometime in January or early February.

Mr. Hunt reviewed the impacts of Government Accounting Standards Board (GASB) Statement 67 implementation, which requires the City to report on its retirement system. He provided the attached draft of the footnotes and required supplementary information for both GASB 67 and 68. The main impact relates to the footnotes and the required supplementary information. Some of the new key information included in the footnotes includes the net pension liability and ratio of the net position to the net pension liability. Essentially, the net pension liability is the actuarial accrued liability for pension benefits less the net position available to pay the benefits at the point of the measurement of the liability. In addition, the footnotes include the rate of return on the Retirement System's investments for the fiscal year, information related to

the City's asset allocation targets, and the expected rates of return on investments in each of different asset classes. There is information regarding the discount rate used to calculate the liability and how the rate was determined. In addition, there is a sensitivity analysis of the net pension liability's discount rate. It shows the City's net pension liability using discounts that are 1% higher and 1% lower. The net pension liability changes by \$64 million when the discount rate changes 1 percent, a significant delta. The auditors worked with representatives of the Pension Reserve Investment Management (PRIM) Board and the City's actuary to get all of the information, which worked well.

Mr. Hunt asked the Committee to keep in mind that the required supplementary information has only one year of information but over time, there will be ten years of information, which will provide a historical perspective. The required supplementary information includes a schedule of changes in net pension liability and related ratios, schedule of employer contributions, schedule of investment returns, and any notes to the supplementary information that contains a summary of the actuarial assumptions for the last ten-year period.

Mr. Hunt informed the Committee that the total pension liability on December 31, 2014 as determined by the actuary was \$595,592,789 and the Retirement System's net position at that time was \$293,924,337, resulting in a net pension liability of \$301,668,452. In other words, we are 49.35% funded. The auditor uses a different discount rate than the actuary, resulting in a larger net pension liability. The auditor is following Statement 68 to select the discount rate used for reporting purposes, which is the PRIM's most recent investment rate of return less 55 basis points for financial reporting purposes. For funding purposes, at the recommendation of the actuary, the City is using 7.65% for the discount rate, which is expected to change every year based upon the information the City gets from the PRIM Board. The discount rate that is used for reporting purposes is likely to remain the same for three to five years. An explanation regarding the use of different discount rates for financial reporting purposes and funding purposes will be included in the management's discussion and Analysis of the City's Comprehensive Annual Financial Report. If possible, an explanatory footnote should be added to the required supplementary information on the discount rates.

Mr. Hunt provided the Committee with some comparisons of the City's net position as a percentage of the net pension liability compared to five other communities. He pointed out that it is important to keep in mind when making comparisons that different retirement systems could use different discount rates and may have significantly different numbers of active employees and retirees. If possible, it would be helpful to use the City's already established list of benchmark communities for comparisons. It was pointed out that when looking at the PERAC data, 74% of the retirement systems are in a better position than the City of Newton's retirement system.

The presentation included preliminary information on the Retirement Systems financial statements for 2014. There are \$293.9 million in assets, \$6.7 million in cash and \$287 million in investments. The liabilities for 2014 total \$7,700 and the net position was just under \$294 million. There is \$52.1 million in additions/revenues as a result of \$20 million in employer

contributions, \$8.7 million in employee contributions and net investment income of \$20.7 million. Expenses/deductions were \$38.6 million, of which \$35.9 million were for benefit payments. Overall, the Retirement System experienced a positive increase in net position of \$13.5 million.

Mr. Hunt moved onto GASB Statement 68, which requires the financial statements to include the City's share of the net pension liability for the City share of the Retirement Systems' net pension liability as a whole. The liability is \$298,730,998 and the City's proportionate share is 99.026264%, which is based on the percentage breakdown of the employers' contribution between the City and the Housing Authority. The statements also include deferred outflows of \$22,750,089. Deferred outflows are expense type items like expected vs. actual experience, change of assumptions, and expected vs actual investment income, which GASB is suggesting that instead of recognizing the expense all at once that the expense be recognized over a period of time. It is very similar to asset smoothing. The footnotes to the report will now disclose the City's share of the net pension liability, the deferred outflows and future amortization of the deferred out flows and the sensitivity of the City share of liability using 1% higher and 1% lower discount rates. The liability changes by over \$59 million when the discount rate changes by 1 percent.

The required supplementary information related to GASB 68 includes a schedule of the City's proportionate share of the net pension liability and a schedule of the City's contribution. Right now, the information only includes one year of information but that will grow to ten years of information as time progresses.

There are some impacts to the City as it relates to the Massachusetts Teachers Retirement System (MTRS) in terms of disclosures. The state is responsible for all employer contributions and benefit payments for teachers. The offsetting revenue and expense recorded for the City's share of State support to the MTRS is \$18.1 million. Mr. Hunt clarified that the State used June 30, 2014 as a measurement date, which is acceptable per GASB 68. The footnotes include expanded information about MTRS, including benefits and the contributions and how they are determined. In addition, it reports the State's net pension liability associated with the City, which is \$260.2 million even though it is not a City liability. There is also information pertaining to the actuarial assumptions, asset allocation targets, expected rates of return and the discount rate for the MTRS. Further information can be found in the attached draft footnotes and required supplemental information.

The update included a review of the draft OPEB Trust Fund financial statements and the net OPEB obligation. The OPEB trust fund contains \$2.1 million. The increase to the fund was just under \$1 million based on contributions and investment income. It is the eighth year of the OPEB accrual for GASB 45. According to the most recent valuation, the unfunded actuarial accrued liability is \$701.5 million. This is an increase of \$147 million. This substantial increase from the previous year was primarily due to increases in medical cost trends. In terms of the net OPEB obligation at the end of the year, it is a little over \$232.4 million, which reflects an increase of \$29.8 million. Currently the reported OPEB liability is the difference between the

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actuarial required contribution and the pay as you go amounts that the City has been paying. In 2018, the difference between the actuarial liability and the net position will be reported as part of the financial statements. The City will be in the red in 2018 but almost every municipality is in the same situation. The City's goal is to fund its pension and OPEB liabilities in 2042. It was pointed out that it will be a challenge for the City to reach its goal. There is no requirement that future administrations continue to follow the funding plan for OPEB.

Mr. Hunt concluded his update of the audit. He will join the Committee in December to discuss the draft management letter and the draft single audit report. Comptroller David Wilkinson stated that all of the fieldwork associated with the audit went very well.

The Committee adjourned at 9 AM.

Respectfully submitted'

Ruthanne Fuller, Chair

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Note 17 – Pension Plan (System)

A – Plan Description

The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Newton Contributory Retirement Board (NCRB). Substantially all employees of the City are members of the System, except for public school teachers and certain school administrative personnel who are members of the MTRS. The System also covers eligible employees of the Newton Housing Authority.

At December 31, 2014, the System’s membership consisted of the following:

Active members.....	1,723
Inactive - entitled to or receiving benefits.....	31
Inactive - not entitled to or not receiving benefits.....	573
Retirees and beneficiaries currently receiving benefits.....	<u>1,317</u>
Total members.....	<u><u>3,644</u></u>
Number of participating employers.....	<u><u>2</u></u>

The System is governed by a five member board comprised of the City Comptroller (ex officio); an appointee of the Mayor; two members elected by the active and retired members of the System, and one member appointed by the other four members.

B – Benefits Provided

The System provides retirement, disability and death benefits to plan members and beneficiaries, pursuant to Massachusetts General Law Chapter 32, up to a maximum of 80% of the average of a member’s three or five highest consecutive years’ regular compensation. In addition to regular compensation, benefits are based upon a member’s age, length of creditable service and group classification. Members become vested after ten years of creditable service. A normal retirement allowance may be received after the completion of 20 years of service or upon reaching age 55 or 60, with 10 years of service. Normal retirement for most employees occurs at age 65 or 67, except for certain hazardous duty and public safety employees who attain normal retirement at age 55 or 57.

City employees with World War II military veteran status, at least 30 years of service to the City, and who began work prior to July 1, 1939, are entitled to a non-contributory pension benefit equal to 72% of their highest annual rate of regular compensation. Non contributory retirees are eligible for an annual cost of living adjustment of not more than 3% on the first \$12,000 of their annual retirement benefit.

A retirement allowance consists of two parts, an annuity and a pension. A member’s accumulated total retirement deductions, plus interest, constitutes the annuity. The difference between the total retirement benefit and the annuity is the pension.

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C - Contributions

Chapter 32 of the MGL assigns authority to establish and amend contribution requirements of the System. In 1984 the City began funding the System on an actuarial reserve basis. This funding includes both current year service and the amortization of past service liability. It is the policy of the NCRB to contract for an annual actuarial valuation of the System to determine whether the contributions are sufficient to meet accruing liabilities and to demonstrate what adjustments, if any, are necessary on the basis of actual experience. Active member contribution rates are based upon date of hire: Prior to January 1, 1975 - 5% of regular compensation; January 1, 1975-December 31, 1984 - 7% of regular compensation; January 1, 1985-June 30, 1996 - 8% of regular compensation and July 1, 1996 to date - 9% of regular compensation. Members hired on or after January 1, 1979 contribute an additional 2% of annual regular compensation in excess of \$30,000.

For the year ended December 31, 2014, active member contributions totaled \$8,661,238 and employer contributions totaled \$19,972,859. Contributions to the System from the City were \$19,778,376 for the year ended June 30, 2015.

D – Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The components of the net pension liability of the System at December 31, 2014, were as follows:

Total pension liability	\$	595,592,789
Plan fiduciary net position		<u>(293,924,337)</u>
Net pension liability	\$	<u>301,668,452</u>
Plan fiduciary net position as a percentage of the total pension liability		49.35%

At June 30, 2015, the City reported a liability of \$298,730,998 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was also determined by an actuarial valuation as of December 31, 2014. The City's proportion of the net pension liability is the proportionate share of employer contributions to the System for the year ended December 31, 2014, actuarially determined. At December 31, 2014, the City's proportion was 99.026264 percent, which was the same proportion measured as of December 31, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$36,846,593. At June 30, 2015, the City reported deferred outflows of resources related to pensions of \$22,750,089 from the following sources:

		<u>Amount</u>
Differences between expected and actual experience	\$	1,861,988
Changes of assumptions		20,552,689
Net difference between projected and actual earnings on System investments		335,412

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The amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Amount</u>
2016	\$ 5,687,523
2017	5,687,523
2018	5,687,523
2019	5,687,520

Actuarial Assumptions –The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method:	Entry age normal
Amortization method:	Increasing payments 8.75% per year
Remaining amortization period:	14 years (closed)
Asset valuation method:	Sum of actuarial value at beginning of year, contributions and investment earnings based on actuarial interest assumption less benefit payments plus 25% of the market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value
Investment rate of return:	7.35%, net of pension plan investment expense, including inflation
Inflation rate:	2.5% per year
Salary increases:	3.5% per year
Cost of living adjustment:	3.0% on the first \$12,000 in benefits
Mortality rates:	Pre-Retirement - RP-2000 Employee Mortality Table projected generationally from 2005 using Scale BB
	Healthy Retiree - RP-2000 Healthy Annuitant Mortality Table projected generationally from 2005 using Scale BB
	Disabled Retiree - RP-2000 Healthy Annuitant Mortality Table projected generationally from 2005 using Scale BB, set forward three years

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2014 to December 31, 2014. As a result of the actuarial experience study, mortality assumptions were adjusted in the December 31, 2014 valuation to more closely reflect actual experience.

Investment Policies and Rates of Return - Deposits and investments made by the System are governed by Chapter 32 of the MGL. The NCRB is responsible for the adoption of a formal asset allocation policy, the selection of professional investment managers to execute the investment policies, and the appointment of an investment consultant to assist with the evaluation of investment manager performance. All investment activities of the NCRB are subject to oversight by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC).

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For the year ended December 31, 2014, the annual money-weighted rate of return on System investments, net of investment expense, was 7.51%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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 Equity	20.0%	6.40%
International Equity - Developed Markets	16.0%	7.07%
International Equity - Emerging Markets	6.0%	9.26%
Core Fixed Income	17.5%	1.53%
High-Yield Fixed Income	5.5%	4.25%
Real Estate	10.0%	4.30%
Commodities	4.0%	3.77%
Hedge Funds	11.0%	3.44%
Private Equity	10.0%	11.26%
Cash	0.0%	0.96%

Discount Rate - The discount rate used to measure the total pension liability was 7.35 percent. The discount rate in the prior fiscal year was 7.65 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the System calculated using the discount rate of 7.35 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.35 percent) or 1-percentage-point higher (8.35 percent) than the current rate:

	1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
System's net pension liability	\$ 366,724,246	\$ 301,668,452	\$ 246,758,663

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The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.35 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.35 percent) or 1-percentage-point higher (8.35 percent) than the current rate:

	1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
City's proportionate share of the net pension liability	\$ 363,153,320	\$ 298,730,998	\$ 244,355,885

Legally Required Reserve Accounts – The balance in the System's legally required reserves as of December 31, 2014 are as follows:

Description	Amount	Purpose
Annuity Savings Fund.....	\$ 86,485,645	Active members' contribution balance
Annuity Reserve Fund....	28,972,410	Retired members' contribution account
Military Service Fund.....	61,422	Military leave of absence contribution balance
Pension Fund.....	<u>178,404,860</u>	Remaining net assets
Total.....	<u>\$ 293,924,337</u>	

Note 18 – Pension Plan (Massachusetts Teachers Retirement System)

A - General Information about the Pension Plan

Plan description - Public school teachers and certain administrators are provided with pensions through the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Massachusetts Teachers' Retirement Board. The MTRS is part of the Commonwealth of Massachusetts' (Commonwealth) reporting entity and does not issue a stand-alone audited financial report. The MTRS is reported as a Pension Trust Fund in the Commonwealth's audited financial statements that can be obtained at <http://www.mass.gov/osc/publications-and-reports/financial-reports/cafr-reports.html>.

Benefits provided - MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit requirements. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

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Contributions - The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Member contributions for MTRS vary depending on the most recent date of membership, ranging from 5-11% of regular compensation. Members hired in 1979 or subsequent contribute an additional 2% of regular compensation in excess of \$30,000.

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in MTRS.

B - Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Since the City does not contribute directly to MTRS, the City does not report a proportionate share of the net pension liability of the MTRS at June 30, 2015. The Commonwealth's net pension liability associated with the City was \$260,194,376.

The MTRS' 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 January 1, 2014 rolled forward to June 30, 2014.

For the year ended June 30, 2015, the City recognized pension expense of \$18,076,952 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

Actuarial assumptions - The MTRS' total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. This valuation used the following assumptions:

Investment rate of return:	8.0%
Salary increases:	Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service
Mortality Rates:	Pre-retirement - reflects RP-2000 Employees table adjusted for "white-collar" employment projected 22 years with Scale AA (gender distinct) Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) Disability - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males
Other:	3.5% interest rate credited to the annuity savings fund 3.0% cost of living increase per year

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Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined 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 the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	43%	7.2%
Core Fixed Income	13%	2.5%
Hedge Funds	10%	5.5%
Private Equity	10%	8.8%
Real Estate	10%	6.3%
Value Added Fixed Income	10%	6.3%
Timber/Natural Resources	4%	5.0%
Totals	<u>100%</u>	

Discount rate - The discount rate used to measure the MTRS' total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. 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.

Pension plan fiduciary net position - Detailed information about the MTRS' fiduciary net position is available in the Commonwealth's audited financial statements.

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Required Supplementary Information

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PENSION PLAN SCHEDULES

**SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS
(SYSTEM)**

	2014
<u>Total pension liability</u>	
Service cost	\$ 10,445,973
Interest	41,588,936
Differences between expected and actual experience	2,350,371
Changes of assumptions	25,943,483
Benefit payments, including refunds of member contributions	(35,872,446)
Net change in total pension liability	44,456,317
Total pension liability - beginning	551,136,472
Total pension liability - ending (a)	\$ 595,592,789
<u>Plan fiduciary net position</u>	
Contributions - employer	\$ 19,972,859
Contributions - member	8,661,238
Net investment income	20,748,803
Benefit payments, including refunds of member contributions	(35,872,446)
Net change in plan fiduciary net position	13,510,454
Plan fiduciary net position - beginning	280,413,883
Plan fiduciary net position - ending (b)	\$ 293,924,337
Net pension liability - ending (a) - (b)	\$ 301,668,452
Plan fiduciary net position as a percentage of the total pension liability	49.35%
Covered-employee payroll	\$ 86,807,549
Net pension liability as a percentage of covered-employee payroll	347.51%

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SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 19,972,859	18,363,516	16,343,094	16,252,351	15,029,827
Contributions in relation to the actuarially determined contribution	<u>19,972,859</u>	<u>18,363,516</u>	<u>16,343,094</u>	<u>16,252,351</u>	<u>15,029,827</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 86,807,549	86,807,549	82,970,000	80,337,000	81,378,000
Contributions as a percentage of covered-employee payroll	23.01%	21.15%	19.70%	20.23%	18.47%

(continued)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarially determined contribution	\$ 13,547,778	12,843,635	11,747,762	10,667,820	10,273,356
Contributions in relation to the actuarially determined contribution	<u>13,547,778</u>	<u>12,843,635</u>	<u>11,747,762</u>	<u>10,667,820</u>	<u>10,273,356</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 83,844,000	82,014,000	79,206,000	74,197,000	71,278,000
Contributions as a percentage of covered-employee payroll	16.16%	15.66%	14.83%	14.38%	14.41%

(concluded)

SCHEDULE OF INVESTMENT RETURNS (SYSTEM)

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	7.51%

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SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (SYSTEM)

	2015*
City's proportion of the net pension liability	99.026264%
City's proportionate share of the net pension liability	298,730,998
City's covered-employee payroll	85,643,310
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	348.81%
Plan fiduciary net position as a percentage of the total pension liability	49.35%

*The amounts presented were determined as of 12/31/14

SCHEDULE OF CITY'S CONTRIBUTIONS (SYSTEM)

	2015
Actuarially Required Contribution	\$ 19,778,376
Contributions in Relation to the Actuarially Required Contribution	19,778,376
Contribution Deficiency (Excess)	\$ -
 City's Covered-Employee Payroll	\$ 85,643,310
 Contributions as a Percentage of Covered Employee Payroll	23.09%

SCHEDULE OF CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (MTRS)

	2015
City's proportion of the net pension liability	0.00%
City's proportionate share of the net pension liability	\$ -
Commonwealth's proportionate share of the net pension liability associated with the City	260,194,376
Total	\$ 260,194,376
 City's covered-employee payroll	\$ 100,361,397
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	N/A
Plan fiduciary net position as a percentage of the total pension liability	61.64%

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SCHEDULE OF CITY'S CONTRIBUTIONS (MTRS)

	<u>2015</u>
Contractually required contribution	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 100,361,397
Contributions as a percentage of covered-employee payroll	N/A

INFORMATION CONTAINED HEREIN IS IN DRAFT FORM FOR FINANCIAL AUDIT ADVISORY COMMITTEE MEETING ONLY

Note A – Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedules of contributions are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in those schedules:

Actuarial cost method (2005-2014):	Entry Age Normal
Amortization method (2005-2006):	Level percentage of payroll
Amortization method (2007-2009):	Payment increases 4.50% per year
Amortization method (2010-2012):	Payment increases 3.75% per year
Amortization method (2013):	Payment increases 8.50% per year
Amortization method (2014):	Payment increases 8.75% per year
Remaining amortization period (2005):	22 years
Remaining amortization period (2006):	21 years
Remaining amortization period (2007):	21 years
Remaining amortization period (2008):	20 years
Remaining amortization period (2009):	20 years
Remaining amortization period (2010):	27 years
Remaining amortization period (2011):	26 years
Remaining amortization period (2012):	24 years
Remaining amortization period (2013):	15 years
Remaining amortization period (2014):	14 years
Asset valuation method (2005-2007):	5-year smoothed market value
Asset valuation method (2008-2009):	Market value
Asset valuation method (2010-2014):	Sum of actuarial value at beginning of year, contributions and investment earnings based on actuarial interest assumption less benefit payments plus 25% of the market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value
Inflation (2005-2012):	3.0%
Inflation (2013):	2.0 – 2.5%
Inflation (2014):	2.5%
Salary increases (2005-2008):	3.00 – 5.25%
Salary increases (2009):	4.00 – 5.25%
Salary increases (2010-2011):	2.0 – 3.5%
Salary increases (2012):	2.5 – 3.5%
Salary increases (2013):	3.0 – 3.5%
Salary increases (2014):	3.5%
Investment rate of return (2005-2009):	8.00%
Investment rate of return (2010-2012):	7.75%
Investment rate of return (2013-2014):	7.65%