

## **Illustration 2—Note Disclosures and Required Supplementary Information for a Single Employer (No Nonemployer Contributing Entities)**

*[Note: This illustration includes only note disclosures and required supplementary information required by this Statement. If the employer includes the pension plan in its financial reporting entity, the employer should apply the requirements of footnotes 12, 13, and 25 of this Statement, as applicable. The circumstances of this employer do not include all circumstances for which note disclosures and required supplementary information should be presented.]*

### **Sample City Notes to the Financial Statements for Year Ended September 30, 2016**

(Dollar amounts in thousands)

#### **Summary of Significant Accounting Policies**

*Pensions.* The Employees' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

#### **Note X**

[If the City's employees were provided with benefits through more than one defined benefit pension plan, the City should disclose information required by paragraph 37 of this Statement and should apply the requirements of paragraph 38 of this Statement. If the City had component units whose employees were provided with pensions through the pension plan, the City should apply the requirements of paragraph 39 of this Statement when presenting financial statements of the reporting entity.]

#### **General Information about the Pension Plan**

*Plan description.* The Employees' Retirement System of Alabama, an agency multiple-employer plan, was established October 1, 1945 under the provisions of Act 515 of the Legislature of 1945 for the purpose of providing retirement allowances and other specified benefits for state employees, State Police, and on an elective basis, to all cities, counties, towns and quasi-public organizations. The responsibility for the general administration and operation of ERS is vested in its Board of Control. The ERS Board of Control consists of 13 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). Title 36-Chapter 27 of the Code of Alabama grants the authority to establish and amend the benefit terms to the ERS Board of Control. The Plan issues a publicly available financial report that can be obtained at [www.rsa-al.gov](http://www.rsa-al.gov).

The ERS Board of Control consists of 13 trustees as follows:

- 1) The Governor, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Personnel Director, ex officio.
- 4) The State Director of Finance, ex officio.
- 5) Three vested members of ERS appointed by the Governor for a term of four years, no two of whom are from the same department of state government nor from any department of which an ex officio trustee is the head.
- 6) Six members of ERS who are elected by members from the same category of ERS for a term of four years as follows:
  - a. Two retired members with one from the ranks of retired state employees and one from the ranks of retired employees of a city, county, or a public agency each of whom is an active beneficiary of ERS.
  - b. Two vested active state employees.
  - c. Two vested active employees of an employer participating in ERS pursuant to § 36-27-6.

*Benefits provided.* State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the ERS. Benefits for ERS members vest after 10 years of creditable service. State employees who retire after age 60 (52 for State Police) with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of creditable service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of State Police service in computing the formula method.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 ERS members are eligible for retirement after age 62 (56 for State Police) with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the ERS (except State Police) are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. State Police are allowed 2.375% for each year of state police service in computing the formula method.

Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary on the member's age, service credit, employment status and eligibility for retirement.

The ERS serves approximately 876 local participating employers. These participating employers include 294 cities, 65 counties, and 517 other public entities. The ERS membership includes approximately 83,874 participants. As of September 30, 2015, membership consisted of:

|                                  |                      |
|----------------------------------|----------------------|
| Retirees and beneficiaries       |                      |
| currently receiving benefits     | 22,211               |
| Terminated employees entitled to |                      |
| but not yet receiving benefits   | 1,353                |
| Terminated employees not         |                      |
| entitled to a benefit            | 5,451                |
| Active Members                   | <u>55,378</u>        |
| <b>Total</b>                     | <b><u>84,393</u></b> |

*Contributions.* Covered members of the ERS contributed 5% of earnable compensation to the ERS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the ERS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the ERS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the ERS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the ERS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 8.50% of earnable compensation. State Police of the ERS contribute 10% of earnable compensation. ERS local participating employers are not required by statute to increase contribution rates for their members.

Tier 2 covered members of the ERS contribute 6% of earnable compensation to the ERS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the ERS are required by statute to contribute 7% of earnable compensation. Tier 2 State Police members of the ERS contribute 10% of earnable compensation. These contributions rates are the same for Tier 2 covered members of ERS local participating employers.

The ERS establishes rates based upon an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability, the pre-retirement death benefit and administrative expenses of the Plan. For the year ended September 30, 2016 (or other year-end if not September), the City's active employee contribution rate was \_\_\_\_\_percent of covered employee payroll, and the City's average contribution rate to fund the normal and accrued liability costs was \_\_[ calculate from Actuarial Valuation as of September 30, 2013] percent of pensionable payroll.

City's contractually required contribution rate for the year ended September 30, 2016 was \_\_\_\_% of pensionable pay for Tier 1 employees, and \_\_\_\_% of pensionable pay for Tier 2 employees. These required contribution rates are based upon the actuarial valuation dated September 30, 2013, a percent of annual pensionable payroll, and actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the System were \$[See System general ledger for FY2016] for the year ended September 30, 2016.

### **Net Pension Liability**

The City's net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as September 30, 2014 rolled forward to September 30, 2015 using standard roll-forward techniques as shown in the following table:

|   |                        |
|---|------------------------|
| <b>Total Pension Liability</b><br>as of September 30, 2014 (a)                                      | \$ Detail table page 4 |
| <b>Entry Age Normal Cost</b> for<br>October 1, 2014—September 30, 2015 (b)                          | \$ Detail table page 4 |
| <b>Actual Benefit Payments and Refunds</b> for<br>October 1, 2014—September 30, 2015 (c)            | \$ Detail table page 4 |
| <b>Total Pension Liability</b><br>as of September 30, 2015<br>[(a) x (1.08)] + (b) – [(c) x (1.04)] | \$ Detail table page 4 |

*Actuarial assumptions.* The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                            |               |
|----------------------------|---------------|
| Inflation                  | 3.00%         |
| Salary increases           | 3.75% - 7.25% |
| Investment rate of return* | 8.00%         |

\*Net of pension plan investment expense

Mortality rates for ERS were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disability Mortality Table.

The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an investigation of the economic and demographic experience for the ERS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis 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 asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

|                                       | <b>Target<br/>Allocation</b> | <b>Long-Term<br/>Expected Rate of<br/>Return*</b> |
|---------------------------------------|------------------------------|---|
| Fixed Income                          | 25.00%                       | 5.00%   |
| U.S. Large Stocks                     | 34.00%                       | 9.00%   |
| U.S. Mid Stocks                       | 8.00%                        | 12.00%  |
| U.S. Small Stocks                     | 3.00%                        | 15.00%  |
| International Developed Market Stocks | 15.00%                       | 11.00%  |
| International Emerging Market Stocks  | 3.00%                        | 16.00%  |
| Real Estate                           | 10.00%                       | 7.50%   |
| Cash                                  | 2.00%                        | 1.50%   |
| <b>Total</b>                          | <b><u>100.00%</u></b>        |   |

\*Includes assumed rate of inflation of 2.50%.

*Discount rate.* The discount rate used to measure the total pension liability was the long term rate of return, 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made in accordance with the funding policy adopted by the ERS Board of Control. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current pan 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.

### Changes in Net Pension Liability

|  | Increase (Decrease)               |                                       |                                     |
|--|-----------------------------------|---------------------------------------|-------------------------------------|
|  | Total Pension<br>Liability<br>(a) | Plan Fiduciary Net<br>Position<br>(b) | Net Pension<br>Liability<br>(a)-(b) |
| <b>Balances at 9/30/2014</b>                                     | \$                                | \$                                    | \$                                  |
| Changes for the year:  |                                   |                                       |                                     |
| Service cost   |                                   | See Table                             |                                     |
| Interest   |                                   | Page 3                                |                                     |
| Differences between expected and actual experience               |                                   |                                       |                                     |
| Contributions--employer  |                                   |                                       |                                     |
| Contributions--employee  |                                   |                                       |                                     |
| Net investment income  |                                   |                                       |                                     |
| Benefit payments, including refunds of<br>employee contributions |                                   |                                       |                                     |
| Administrative expense   |                                   |                                       |                                     |
| Transfers Among Employers  |                                   |                                       |                                     |
| Net changes  |                                   |                                       |                                     |
| <b>Balances at 9/30/2015</b>                                     | \$                                | \$                                    | \$                                  |

*Sensitivity of the net pension liability to changes in the discount rate.* The following table presents the City's net pension liability calculated using the discount rate of 8%, 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 (7%) or 1-percentage-point higher (9%) than the current rate:

|                              | 1% Decrease<br>(7.00%) | Current Rate<br>(8.00%) | 1% Increases<br>(9.00%) |
|------------------------------|------------------------|-------------------------|-------------------------|
| City's net pension liability |                        |                         |                         |

[See Detail Report Page 3 ]

(Dollar amounts in thousands)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 68 Report for the ERS prepared as of September 30, 2015. The auditor's report dated October 17, 2016 on the Schedule of Changes in Fiduciary Net Position by Employer and accompanying notes is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2016, the City recognized pension expense of [see general ledger amount]. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions of the following sources:

|  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Differences between expected and actual experience                               | See Detail Table Pg 4                     | See Detail Table Pg 4                    |
| Changes of assumptions   | See Detail Table Pg 4                     | See Detail Table Pg 4                    |
| Net difference between projected and actual earnings on pension plan investments | See Detail Table Pg 4                     | See Detail Table Pg 4                    |
| Employer contributions subsequent to the measurement date                        | *   | See Detail Table Pg 4                    |
| <b>Total</b>   | <b>Total of above</b>                     | <b>Total of above</b>                    |

\*Enter FY 2016 employer contributions applied to pension liability and add for total Deferred Outflows of Resources

Amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized in pension expense as follows:

| <b>Year ended September 30:</b> |                            |
|---------------------------------|----------------------------|
| 2016                            | [See Detail Report Page 7] |
| 2017                            | [See Detail Report Page 7] |
| 2018                            | [See Detail Report Page 7] |
| 2019                            | [See Detail Report Page 7] |
| 2020                            | [See Detail Report Page 7] |
| Thereafter                      | [See Detail Report Page 7] |