

10/11

**The City of Bismarck Employees'
Pension Plan**

Actuarial Valuation

January 1, 2006

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**STANTON
GROUP** |

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

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THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

ACTUARIAL REPORT

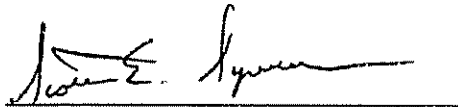
JANUARY 1, 2006 to DECEMBER 31, 2006

In our opinion, the following report presents fairly the actuarial position of the plan in accordance with generally accepted actuarial principles and practices.

Our actuarial valuation has been conducted with reliance on participant information provided by the plan sponsor and financial information provided by the plan sponsor or trustee. The valuation was performed on the basis of the plan provisions, actuarial cost method and actuarial assumptions stated in this report.

In our opinion, the actuarial assumptions used (a) each, and in the aggregate, are reasonably related to the experience of the plan and to reasonable expectations, and (b) in the aggregate, represent our best estimate of anticipated experience under the plan.

To the best of our knowledge, the information contained in this report is complete and accurate.



Scott E. Syverson
Actuarial Consultant



Douglas A. Anderson, A.A.A., M.A.A.A., E.A.
Enrollment Number 05-05012

04/05/06
Date

04/05/06
Date

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

COMMENTARY

In this report we present the results of the January 1, 2006 Actuarial Valuation of The City of Bismarck Employees' Pension Plan. There were significant changes in actuarial assumptions since the prior report. See the Actuarial Assumptions and Cost Methods section for details. The only change in plan provisions was a 2.6% Cost of Living Adjustment for retirees.

Recommended Contribution

It is recommended that the City contribution be at least equal to the contribution required under the entry age normal actuarial cost method with frozen initial liability. On this basis, a minimum contribution of \$1,233,248 (9.4% of payroll) is recommended for the 2006 plan year. The calculation of this contribution is illustrated by Exhibits 8, 9, and 10.

Expected City Contribution


The City Commission has approved that the City contribution to the Employees' Pension Plan for the five year period beginning January 1, 2004 will be in the amount of 10.4% of salary with an additional \$819,791 to be contributed toward payment of the unfunded liability. The expected contribution for 2006 on this basis is \$2,182,903 (16.7% of payroll).

Contribution Requirements

The valuation results are shown on page 3 in a comparison between 2005 and 2006. The 2005 calculation, developed in the first column, shows a City liability of \$15,111,942 and, with a City payment of \$2,147,359 for 2005 and \$2,182,903 for 2006 plus future contributions of 10.4% of payroll plus \$819,791 per year for two additional years to be contributed toward payment of the unfunded liability, an amortization period of 12 years.

The calculation for 2006 shows a City liability of \$12,498,453 and, with a City payment of \$2,182,903 for 2006 and \$2,223,796 for 2007 plus future contributions of 10.4% of payroll plus \$819,791 for one additional year to be contributed toward payment of the unfunded liability, an amortization period of 9 years.

Funding Ratio

On a plan assumptions basis, plan assets cover 123% of the present value of accumulated benefits. More detail is contained in Exhibit 11. Last year plan assets covered 119% of the present value of accumulated benefits. 

GASB No. 5

Information required by Statement No. 5 of the Governmental Accounting Standards Board is summarized in Exhibit 13.

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

SUMMARY OF RESULTS

	1/1/05	1/1/06
1. Number of Participants		
(a) Active	334	339
(b) Retired	119	117
(c) Terminated Vested	<u>17</u>	<u>21</u>
(d) Total Participants	470	477
2. Annual Covered Salaries for Participants under Age 62	\$ 12,765,077	\$ 13,106,843
3. Present Value of Future Benefits		
(a) Active Participants	\$ 45,368,612	\$ 46,673,176
(b) Retired Participants	13,771,144	13,993,419
(c) Terminated Vested Participants	639,264	907,946
(d) Present Value of Employee Contributions	<u>6,744,858</u>	<u>6,239,700</u>
(e) Net Total Present Value (a + b + c - d)	\$ 53,034,162	\$ 55,334,841
4. Plan Assets	\$ 37,922,220	\$ 42,836,388
5. Net Present Value to be Funded by Employer (3e - 4)	\$ 15,111,942	\$ 12,498,453
6. Expected Annual Financial Support by Employer	\$ 2,147,359 ¹	\$ 2,182,903 ¹
7. Recommended Contribution (See Exhibit 10)	\$ 1,414,021	\$ 1,233,248
8. Amortization Period at Expected Level of Funding	12 years ²	9 years ³ →

¹ 10.4% of salary with an additional \$819,791 each year for the five year period beginning January 1, 2004 to be contributed toward payment of the unfunded liability.

² Amortization period based on \$2,147,359 contribution for 2005, increased to \$2,182,903 for 2006, and increasing due to total salary growth at the rate of 3.0% annually (including contribution of \$819,791 per year for two years thereafter).

³ Amortization period based on \$2,182,903 contribution for 2006, increased to \$2,223,796 for 2007, and increasing due to total salary growth at the rate of 3.0% annually (including contribution of \$819,791 for one year thereafter).

**THE CITY OF BISMARCK EMPLOYEES'
PENSION PLAN**

***INPUT
INFORMATION***

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 1

SUMMARY OF PLAN PROVISIONS

The following summary has been prepared for valuation purposes only. It outlines the provisions found in Chapter 9-07 (City Employees' Pension) necessary to perform the actuarial valuation, as interpreted by Stanton Group.

Definitions

Actuarial Equivalence Factors:

In calculating the actuarial equivalence of one form of benefit to another, the interest rate to be used shall be 7.0% and the mortality table to be used shall be the "applicable mortality table" as defined by Section 417(e)(3) of the Code (9-07-10).

Average Basic Monthly Compensation:

The average of the monthly base compensation of a participant over the highest 36 month period of employment. Monthly base compensation excludes overtime, bonuses, severance payments, and other remuneration in excess of base compensation (9-07-15(1)).

Effective Date Of the Plan:

January 1, 1966.

Early Retirement Date:

Participants who have completed 60 consecutive months of contributing service and have attained age 50 are eligible for a monthly pension benefit (9-07-15(2)).

Membership Fee:

Every full-time employee of the City of Bismarck except police officers and fire fighters shall be assessed and required to pay an amount of 5.0% of their basic salary (9-07-01).

Normal Form of Benefit:

Married Participants receive a Joint & Two-Thirds to Survivor annuity. Single Participants receive a Life Only annuity.

Normal Retirement Date:

Participants who have attained age 62 are eligible for a monthly pension benefit (9-07-15(1)).

Plan Year:

January 1st through December 31st (9-07-08).

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 1 (continued)

SUMMARY OF PLAN PROVISIONS

Recognized Service: Full and fractional years of contributing service during which the employee contributed to the fund (9-07-23). Military service will be included as part of the period of service with the city provided that the period does not exceed 5 years and the employee pays into the fund 5.0% of the lesser of the last full year's salary paid by the city or military salary for each year of military service (9-07-05).

Plan Provisions

Eligibility: Every full-time employee, other than members of the police department who are sworn officers, members of the firefighter's relief association, and employees who perform fire suppression duties (9-07-11).

Normal Retirement Benefit: Participants serving until the Normal Retirement Date are eligible for a monthly pension benefit computed by multiplying his or her highest 36 months of Average Basic Monthly Compensation times 1.75% times his or her number of full and fractional years of Recognized Service prior to January 1, 2005 plus 2.25% times his or her number of full and fractional years of Recognized Service after December 31, 2004 (9-07-15(1)).

Early Retirement Benefit: The monthly pension benefit shall be equal to the Normal Retirement Benefit actuarially reduced for payments commencing prior to age 62 (9-07-15(2)). The reduction factors are as follows:

Age	Factor	Age	Factor
50	.4287	57	.6841
51	.4567	58	.7353
52	.4870	59	.7918
53	.5199	60	.8542
54	.5557	61	.9233
55	.5947	62	1.000
56	.6373		

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 1 (continued)

SUMMARY OF PLAN PROVISIONS

Termination Benefit:

After 60 consecutive months of contributing service and termination of employment, a Participant may elect a deferred retirement benefit to commence at an elected age 50 to 62. The Participant's deferred benefit shall equal the Normal Retirement Benefit (based on service and compensation to the date of termination) actuarially reduced for early commencement (9-07-15(3)).

Death Benefit:

The surviving spouse (while unmarried) receives 2/3 of the actuarially reduced pension to which the Participant would have been entitled, but not less than \$65 per month provided the Participant served at least 60 consecutive months of contributing service (9-07-15(4)).

The surviving spouse has the option to elect a refund of contributions in lieu of the above-mentioned benefit (9-07-15(5)).

If there is no surviving spouse, the Participant's contributions are paid to the Participant's estate (9-07-15(6)).

Refund of Contributions:

Any Participant who has contributed to the plan and terminates employment before being entitled to a pension shall be entitled to a refund of all contributions made by him to the pension system with accumulated interest. Interest of 5.0% per year will be credited on such contributions made after July 1, 1972. Interest of 2.5% per year will be credited on such contribution made before July 1, 1972.

Any Participant electing a refund of contributions forfeits all rights to any other form of benefit under this plan (9-07-14).

Cost of Living Adjustments:

Persons receiving pension payments shall be eligible for cost of living adjustments in an amount determined by the board of trustees. The adjustment may not exceed the lesser of the city employees' salary adjustment or 3% (9-07-16).

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 2

CENSUS SUMMARY AND RECONCILIATION

	1/1/05	1/1/06
<i>Active Participants</i>		
• Number of Participants		
• Fully Vested	238	256 +12
• Non-Vested	<u>96</u>	<u>83</u> (12)
• Total	334	339 +5
• Average Age	47.1	47.6
• Average Service	13.6	14.0
• Average Salary	\$ 38,424	\$ 39,468
<i>Retired Participants</i>		
• Number of Participants	119	117 -2
• Average Age	72.9	73.5
• Average Years since Retirement	11.0	10.8
• Average Monthly Benefit	\$ 1,087.44	\$ 1,111.83
<i>Terminated Vested Participants</i>		
• Number of Participants	17	21 +4
• Average Age	51.4	49.2
• Average Years since Termination	6.2	5.2
• Average Monthly Benefit at Normal Retirement	\$ 598.57	\$ 652.75 +7

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 2 (continued)

CENSUS SUMMARY AND RECONCILIATION

The following information provides the reconciliation from January 1, 2005 to January 1, 2006 of plan participants.

	Active	Terminated Vested	Retired	Disabled	Beneficiaries	Total
1/1/2005 Participants	334	17	92	1	26	470
New Participants	18	-	-	-	-	18
Rehired	1	-	-	-	-	1
Terminated vested	(5)	5	-	-	-	0
Terminated non-vested	(7)	-	-	-	-	(7)
Retired	(1)	-	1	-	-	0
Disabled	-	-	-	-	-	0
Died with beneficiary	-	-	(5)	-	5	0
Died without beneficiary	-	-	(3)	-	-	(3)
Benefit stopped	-	-	-	-	-	0
Paid-out lump sum	(1)	(1)	-	-	-	(2)
1/1/2006 Participants	339	21	85	1	31	477

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 3

**DISTRIBUTION OF ACTIVE PARTICIPANTS
BY AGE AND SERVICE AS OF JANUARY 1, 2006**

Age	Years of Credited Service										Total
	0-1	2-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 25	2	1	-	-	-	-	-	-	-	-	3
25-29	10	4	1	-	-	-	-	-	-	-	15
30-34	2	6	7	-	-	-	-	-	-	-	15
35-39	6	6	14	8	2	-	-	-	-	-	36
40-44	6	9	9	9	14	3	-	-	-	-	50
45-49	5	7	11	9	16	13	10	-	-	-	71
50-54	2	12	9	7	13	9	21	1	-	-	74
55-59	-	5	8	5	7	7	8	9	3	-	52
60-64	-	-	1	1	4	4	5	2	3	-	20
65-69	-	-	-	1	1	-	-	-	-	-	2
70+	-	-	-	-	-	-	-	1	-	-	1
Total	33	50	60	40	57	36	44	13	6	0	339

72-70
41-59
2290
+55

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 4

**DISTRIBUTION OF INACTIVE PARTICIPANTS BY
AGE AND YEARS SINCE RETIREMENT OR TERMINATION
AS OF JANUARY 1, 2006**

Retired Participants

Age	Years Since Retirement						Average Monthly Annuity
	0-1	2-4	5-9	10-14	15+	Total	
Below 55	-	-	-	-	-	-	\$ N/A
55-59	1	2	1	-	-	4	556.38
60-64	7	3	1	-	-	11	1,377.47
65-69	-	16	11	-	3	30	1,179.36
70-74	2	3	10	7	5	27	1,360.93
75-79	-	-	2	7	14	23	970.66
80+	4	2	-	-	16	22	829.78
Total	14	26	25	14	38	117	\$ 1,111.83

2,225.52
15,156.17
35,380.8
34,745.11
22,325.18
18,255.16

139,084.11
x 12
1,560,983.28

Terminated Vested Participants

Age	Years Since Termination						Average Monthly Annuity
	0-1	2-4	5-9	10-14	15+	Total	
Below 45	5	1	-	-	-	6	\$ 491.75
45-49	-	-	3	-	-	3	721.50
50-54	1	1	2	-	1	5	812.29
55-59	-	2	2	1	1	6	479.32
60-64	1	-	-	-	-	1	1,655.32
65+	-	-	-	-	-	0	N/A
Total	7	4	7	1	2	21	\$ 652.75

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 5

RECONCILIATION OF ASSETS

1. Beginning Balance as of December 31, 2004		\$ 38,949,696
2. Transfer to Employee Excess Retirement Fund		<u>1,021,648</u>
3. Beginning Balance as of January 1, 2005 (1 - 2)		\$ 37,928,048
4. Revenue		
Employer's Contribution		
General Property Tax	\$ 838,240	
Mobile Home Tax	11,574	
Homestead Credit	2,299	
State Payment in Lieu of Tax	78,003	
Park & Rec. Contribution	<u>217,199</u>	
Subtotal	\$ 1,147,315	
Employee's Contribution	674,192	
Investment Income (Loss)	<u>4,164,103</u>	
Total Revenue		\$ 5,985,610
5. Expenditure		
Pension Benefit Payments	\$ 1,559,967	
Accounting & Audit Fees	191	
Management Consulting	12,255	
Miscellaneous Investment Expense	63,884	
Investment Expense	304,351	
Pension Refunds	88,747	
Postage	<u>650</u>	
Total Expenditure		\$ <u>2,030,045</u>
6. Total Operating Income (Loss) (4 - 5)		\$ 3,955,565
7. Other Financing Sources (Uses)		
Transfer from General Fund	\$ 220,322	
Transfer from Special Revenue Funds	35,144	
Transfer from Capital Projects Fund	7,967	
Transfer from Enterprise Funds	647,090	
Transfer from Internal Service Fund	55,905	
Transfer to General Fund	<u>(13,653)</u>	
Total Other Financing Uses		\$ <u>952,775</u>
8. Net Income (Loss) (6 + 7)		\$ <u>4,908,340</u>
9. Ending Balance as of December 31, 2005 (3 + 8)		\$ 42,836,388

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 6

ACTUARIAL ASSUMPTIONS AND COST METHODS

Economic Assumptions

Investment Return: The fund is assumed to earn 7.5% per year.

Salary Scale: Active Participant salaries are assumed to increase at rates according to the following table:
(changed effective 1/1/06)

Years of Service	Rate
0-9	5.0%
10+	4.0%

Inflation: The amortization of the Unfunded Liability is determined as a level percent of payroll using a 3.0% total payroll growth assumption.

Demographic Assumptions

Retirement: Active Participants are assumed to retire upon attainment of age 62.

Mortality: Mortality rates are based on the 1994 Group Annuity Mortality Table (See Illustrations on Page 13).
(changed effective 1/1/06)

Disability: None.

Withdrawal: Active Participant termination rates are based on Plan experience between 1/1/98 and 1/1/05 (See Illustrations on Page 13).
(changed effective 1/1/06)

Spouse Age: Male Participants are assumed to be 3 years older than female spouses. Female Participants are assumed to be 3 years younger than male spouses.

Marriage Rate: 85% of Participants are assumed to be married.

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 6 (continued)

ACTUARIAL ASSUMPTIONS AND COST METHODS

Cost Methods

Form of Benefit: Married Participants receive their benefit in the form of a Joint and Two Thirds to Survivor annuity. Single Participants receive their benefit in the form of a Life Only annuity.

Actuarial Asset Value: The Actuarial Value of Assets is equal to the market value of assets reserved for employee pension benefits.

Expenses: Plan expenses are paid from plan assets.

Funding Method: The contribution requirement is determined using the Entry Age Normal - Frozen Initial Liability actuarial cost method.

Illustrations

Age	Rate of Mortality (per 1,000)		Rate of Disability (per 1,000)		Rate of Withdrawal (per 1,000)	
	Male	Female	Male	Female	Male	Female
25	0.66	0.29	0	0	40	200
30	0.80	0.35	0	0	40	50
35	0.85	0.48	0	0	30	50
40	1.07	0.71	0	0	25	40
45	1.58	0.97	0	0	20	20
50	2.58	1.43	0	0	10	20
55	4.43	2.29	0	0	0	0

**THE CITY OF BISMARCK EMPLOYEES'
PENSION PLAN**

***CONTRIBUTION
INFORMATION***

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 7

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

1. Unfunded Actuarial Accrued Liability as of January 1, 2005	\$ 4,934,124
2. Normal Cost due January 1, 2005	963,112
3. Interest on A and B to Year End at 7.50%	442,293
4. Employer Contribution for Year	1,147,315
5. Interest on Contribution to Year End at 7.50%	<u>43,024</u>
6. Unfunded Actuarial Accrued Liability as of December 31, 2005, before adjustments (1 + 2 + 3 - 4 - 5)	\$ 5,149,190
7. Adjustments for Assumption Changes and Cost of Living Adjustment	<u>886,130</u>
8. Unfunded Actuarial Accrued Liability as of December 31, 2005, after adjustments (6 + 7)	\$ 6,035,320

Under the Entry Age Normal-Frozen Initial Liability actuarial cost method, an initial unfunded accrued liability is established and amortized over a fixed period of time. The initial unfunded accrued liability for this plan was reestablished as of January 1, 2002 and the amortization period was reset at 20 years. The amortization payment is a component of the total recommended contribution.

Effective January 1, 2006, the Unfunded Actuarial Accrued Liability was adjusted to reflect the actuarial assumption changes and the Cost of Living Adjustment.

The unfunded accrued liability is scheduled to be reduced to \$0 over the amortization period. However, this schedule is met only if the actual employer contribution equals the recommended contribution each year. If the employer contribution exceeds the recommended contribution, the unfunded accrued liability will be reduced more rapidly. Alternatively, if the employer contribution is less than the recommended contribution, the unfunded accrued liability will increase.

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 8

DEVELOPMENT OF NORMAL COST

	1/1/05	1/1/06
Actuarial Balance Sheet		
1. <u>Liabilities</u>		
Actuarial Present Value of Future Benefits		
(a) Participants Receiving Benefits	\$ 13,771,144	\$ 13,993,419
(b) Terminated Vested Participants	639,264	907,946
(c) Active Participants	<u>45,368,612</u>	<u>46,673,176</u>
(d) Total (a + b + c)	\$ 59,779,020	\$ 61,574,541
2. <u>Assets</u>		
(a) Actuarial Value of Assets (Exhibit 5)	\$ 37,922,220	\$ 42,836,388
(b) Present Value of Future Employee Contributions	6,744,858	6,239,700
(c) Unfunded Actuarial Accrued Liability (Exhibit 7)	4,934,124	6,035,320
(d) Actuarial Present Value of Future Employer Normal Cost	<u>10,177,818</u>	<u>6,463,133</u>
(e) Total (a + b + c + d)	\$ 59,779,020	\$ 61,574,541
Development of Normal Cost		
1. Actuarial Present Value of Future Employer Normal Cost	\$ 10,177,818	\$ 6,463,133
2. Actuarial Present Value of Future Earnings	134,897,161	124,794,007
3. Normal Cost Percentage (1 ÷ 2)	7.5449%	5.1790%
4. Earnings of Active Participants under Age 62 *	12,765,077	13,106,843
5. Normal Cost (3 x 4)	\$ 963,112	\$ 678,803

* Earnings are annualized for Participants with less than one year of service.

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 9

DEVELOPMENT OF AMORTIZATION PAYMENT

Amortization Schedule

Year	Unfunded Liability at Beginning of Year	Annual Amortization Payment	Unfunded Liability at End of Year
2006	\$ 6,035,320	\$ 509,870	\$ 5,939,858
2007	5,939,858	525,166	5,820,794
2008	5,820,794	540,921	5,675,863
2009	5,675,863	557,149	5,502,618
2010	5,502,618	573,863	5,298,411
2011	5,298,411	591,079	5,060,381
2012	5,060,381	608,812	4,785,437
2013	4,785,437	627,076	4,470,238
2014	4,470,238	645,888	4,111,176
2015	4,111,176	665,265	3,704,354
2016	3,704,354	685,223	3,245,566
2017	3,245,566	705,780	2,730,271
2018	2,730,271	726,953	2,153,566
2019	2,153,566	748,762	1,510,165
2020	1,510,165	771,224	794,361
2021	794,361	794,361	0

The annual amortization payment is determined by amortizing the unfunded liability over 16 years as a level percentage of total payroll. Total payroll is assumed to increase at 3% per year. Therefore, the remaining balance of \$6,035,320 as of January 1, 2006 will be fully amortized over a 16-year period with payments increasing from \$509,870 in 2006 by 3% per year.

THE CITY OF BISMARCK EMPLOYEES' PENSION PLAN

EXHIBIT 10

DEVELOPMENT OF RECOMMENDED CONTRIBUTION

**Recommended Contribution
(Dollar Amounts)**

	1/1/05 to 12/31/05	1/1/06 to 12/31/06
1. Normal Cost	\$ 963,112	\$ 678,803
2. Amortization of Unfunded Actuarial Accrued Liability	<u>399,800</u>	<u>509,870</u>
3. Recommended Contribution, Beginning of Year (1 + 2)	\$ 1,362,912	\$ 1,188,673
4. Interest to Mid-Year at 7.5%	<u>51,109</u>	<u>44,575</u>
5. Recommended Contribution, Mid-Year, (3 + 4)	\$ 1,414,021	\$ 1,233,248

**Recommended Contribution
(As a Percent of Payroll)**

	1/1/05 to 12/31/05	1/1/06 to 12/31/06
1. Normal Cost	7.6%	5.2%
2. Amortization of Unfunded Actuarial Accrued Liability	<u>3.1%</u>	<u>3.9%</u>
3. Recommended Contribution, Beginning of Year (1 + 2)	10.7%	9.1%
4. Interest to Mid-Year at 7.5%	<u>0.4%</u>	<u>0.3%</u>
5. Recommended Contribution, Mid-Year, (3 + 4)	11.1%	9.4%