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# **Bloomington Fire Department Relief Association**

## **Annual Report 2001**

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2001

# BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION

BLOOMINGTON, MINNESOTA

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For the Year Ended December 31, 2001

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## **President's Letter**

**March 2002**

Dear BFDRA Members,

2001 was a challenging year. The difficult investment environment resulted in decreased assets for the year. Our funding liability increased, as it does each year, yet we remain solidly funded.

Despite having updated the bylaws in recent years, we found more changes to be necessary. Proposed changes were formulated in 2001 and were recently sent to all BFDRA members.

Our annual audit was recently completed and the State Auditor's Office is requesting that we implement two measures. First, they want to see signature cards returned annually from all active pensioners. We will begin this project soon.

Second, they are requesting that our pension payments be reconciled each month. We are implementing this monthly reconciliation, and we are working closely with Union Bank and Trust to ensure the accuracy of future pension payments.

We are confident that the composition of our board, along with our policies and procedures, will continue to serve us well.

Sincerely,



John Bayard  
President, BFDRA

## **Investment Officer's Overview**

### **RECESSION TO RECOVERY**

For the second straight year, the painful and difficult investment markets have chosen to give us unimaginable lows in a bear market worsened by terrible corporate earnings, a recession (started March 1<sup>st</sup>), and a terrorist attack that targeted the money system. The three major market indexes ended the year down for the second year in a row. Not since 1973 and 1974, when we were engulfed by a recession and energy crisis, has the market given us such negative results. The momentum of the economy in late 2000 was working against growth in 2001 instead of propelling the economy ahead. Orders were down, profits were plunging and business investments in new equipment were collapsing.

The year 2002 appears to be in the process of recovery, but the recovery will not be V-shaped and not without bumps along the way. Industrial production was unchanged in December and January. It appears that the Fed will keep rates on hold for the good part of 2002. The market needs to build confidence back into the lines of the investor. Consumer confidence and company business plans are critical dynamics to recovery. Inventory excesses have largely been corrected and business plans have been adjusted which should set the stage for the beginning of the recover processes.

## SUMMARY OF CURRENT PLAN PROVISIONS

1. Basic Benefit	One-third of the final average salary of a policeman of the highest grade, not including officers of the City of Bloomington. Final average earnings is the average of the monthly pay for such a policeman over the past three years. All benefits under the plan increase each time a pay increase is granted to the Bloomington Police Department.
2. Normal Retirement Benefit	Basic benefit is payable at retirement after attainment of the age of 50 and completion of 20 years of service.
3. Deferred Vested Benefit	On termination or after completion of 20 years of service, the basic benefit is payable after attainment of age 50.
4. Disability Benefits	The basic benefit is payable while the member remains disabled. After attainment of age 50, a normal retirement benefit is payable. Disability is defined as inability to perform the duties of a firefighter.
5. Spouse's Benefit:	On the death of any active or inactive member, 75% of the basic benefit is payable to the surviving spouse for the spouse's remaining lifetime. Benefits cease on remarriage of the surviving spouse.
6. Children's Benefits	On the death of an active member, 12% of the basic benefit is payable to each surviving child until attainment of age 18. Maximum family benefit is 100% of the basic benefit. On the remarriage or death of a spouse, surviving children may receive benefits which total more than the basic benefit.
7. Lump Sum Death Benefit	On the death of any active or inactive member, \$500 is payable from the Special Fund, and \$2000 is payable from the General Fund.
8. Membership Dues	Each active member contributes \$144.00 per year.

**CITY OF BLOOMINGTON FIRE RELIEF ASSOCIATION  
("FIRE RELIEF")  
Investment Policies**

**I. Objectives**

It is the objective of the Board of Trustees to attain a favorable absolute and relative rate of return for the assets of the Fire Relief, consistent with the preservation of capital.

- A.** Safety - Safety of principal is of critical importance to the investment program. Investments of the Fire Relief shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, diversification is required in order that potential losses on the individual securities do not exceed the income generated from the remainder of the portfolio.
- B.** Liquidity - The Fire Relief's investment portfolio will remain sufficiently liquid to enable the Fire Relief to meet all operating requirements which might reasonable be anticipated.
- C.** Return on Investment - The Fire Relief's investment portfolio shall be designed with the objective of attaining a market rate of return.

**II. Prudence**

Investments shall be made with judgment and are, under circumstances existing at the time the investment is made, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, considering probable safety of their capital as well as interest yield to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse situations.

**III. Authority**

Authority to manage the Fire Relief's investment program is derived from the following:

- ♦ Minnesota Statutes 356A, Public Pension Plan Fiduciary Responsibility

- ◆ Minnesota Statutes Section 356A, Section 356A.06, Subdivision 7 (permissible securities)
- ◆ Minnesota Statutes Section 69.77, Subdivision 2g; (mutual fund authority)
- ◆ Minnesota Statutes Section 356.71 (additional real estate investment authority)

Under Minnesota law, the Board of Trustees is required to manage the affairs of the Fire Relief. It may engage the services of an investment manager or managers and performance evaluators to assist it in attainment of its goals and objectives.

If the Board of Trustees employs persons or firms to perform such services, it shall conduct studies to ascertain that such employees possess the necessary specialized research facilities and skilled personnel to meet these investment objectives and guidelines. The Board of Trustees shall require a fund manager, if employed, to adhere to the "prudent person" rule under such federal and state laws which now apply, or may in the future apply to investments of the Fire Relief.

#### **IV. Ethics and Conflicts of Interests**

Officers and employees involved in the investment process shall refrain from conducting personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Board of Trustees any material financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the Fire Relief's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the Fire Relief's, particularly with regard to the time of purchases and sales.

#### **V. Investment Committee**

The Board will serve as the Investment Committee and shall meet at regular intervals to review the following:

- ◆ Investment Policy
- ◆ Investment strategy in current and prospective economic climate
- ◆ Examine the current risk levels of the securities represented in the Portfolio

#### **VI. Authorized & Suitable Investments**

The Fire Relief is empowered by statute to invest in the following types of securities:

- ◆ Securities generally. The Fire Relief is authorized to purchase, sell, lend or exchange the securities specified below, including puts and call options and future contracts traded on a contract market regulated by a governmental agency or by a financial institution regulated by a governmental agency.



- ◆ Governmental bonds, notes, bills, mortgages or other securities which have direct obligations (or guaranteed or insured issues) of the United States, its agencies, its instrumentalities, or organizations created by of Congress, and its provinces, the principal and interest is payable in United States dollars; the states and their municipalities, political subdivisions, agencies, or instrumentalities; the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank; or any other United States government-sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.
- ◆ Investment-grade corporate companies organized under the laws of United States and Canada, including bond notes and debentures, providing the securities are investment-grade and are payable in United State dollars, and the obligations must be rated among the top four quality categories by a nationally recognized rating agency.
- ◆ Bankers Acceptances and deposit notes of United States banks are limited to those issued by banks rated in the highest four quality categories by a nationally recognized rating agency.
- ◆ Certificates of deposit are limited to those issued by United States banks and savings institutions that are rated in the highest four quality categories by a nationally recognized rating agency or whose certificates of deposit are fully insured by federal agencies; or credit unions in amounts up to the limit of insurance coverage provided by the National Credit Union Administration.
- ◆ Commercial Paper is limited to those issued by United States corporations or their Canadian subsidiaries and rated in the highest two quality categories by a nationally recognized rating agency.
- ◆ Mortgage participation certificates and pools or pass through certificates evidencing interest in pools of first mortgages or trust deed on improved real estate; located in the United States where the loan-to-value ratio for each loan as calculated in accordance with Section 61A.28, Subdivision 3, does not exceed 80% for fully amortizable residential properties and in all other respects meet the requirement of Section 61A.28, Subdivision 3.
- ◆ Asset-backed securities must be rated in the top four categories by a national recognized rating agency.
- ◆ Repurchase agreements and reverse repurchase agreements. The collateral for repurchase agreements and reverse repurchase agreements is limited to letters of credit and securities authorized.
- ◆ Savings accounts are limited to those fully insured by federal agencies.

- ◆ Guaranty fund certificates investment contracts are limited to those issued by insurance companies or banks rated in the top four quality categories by a nationally recognized rating agency or to alternative guaranteed investment contracts where the underlying assets comply.
- ◆ Surplus notes and debentures of domestic mutual insurance companies.
- ◆ Corporate stocks. Any stocks or convertible issues of any corporation organized under the laws of the United States or the states thereof, the Dominion of Canada or its provinces, or any corporation listed on the New York Stock Exchange or the American Stock Exchange, if they conform to the following provisions: the aggregate value of corporate stock investments, as adjusted for realized profits and losses, must not exceed 85% of the market or book value, whichever is less, of a fund, less the aggregate value of investment according to Section 356A.06 Subdivision 6. The investment must not exceed 5% of the total outstanding shares of any one corporation.
- ◆ Venture capital investment businesses through participation in limited partnerships and corporation.
- ◆ Regional and mutual funds through bank-sponsored collective funds and up to 75% of the market value of the fund may be invested in open-end investment companies registered under the Federal Investment Company Act of 1940, if the portfolio investment of the investment companies comply with the type of securities authorized for investment under Section 356A.06 Subdivision 7.
- ◆ Real Estate ownership interests or loans secured by mortgages or deeds trust through investment in limited partnerships, bank sponsored collective funds, trusts and insurance company commingled accounts, including separate accounts. Real Estate investments may not exceed 35% of the market value of the fund and there must be at least four unrelated owners of the investment other than the state board for investments.
- ◆ Preferred shares will be classified as bonds when determining asset allocation.

## **VII. Prohibited Investments**

The following investments are imposed by the Board of Trustees:

Short sales  
 Letter Stock  
 Commodities  
 Foreign Securities (other than those listed on the New York Stock Exchange)

## **VIII. Safekeeping and Custody**

All security transactions including collateral for repurchase agreements, entered into by the Fire Relief, shall be conducted on a delivery-versus-payment (DVP) basis.

Securities will be held by a third party custodian designated by the Board and evidenced by safekeeping receipts.

#### **IX. Diversification**

The Fire Relief will diversify its investments by security type and institution and, with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the entity's total investment portfolio will be invested in a single security type or with a single financial institution with the exception of authorized mutual funds.

#### **X. Performance Standards\Market Yield (Benchmark)**

One or more from the Universe Cross Reference list.

The following benchmark should be defined:

- ◆ State Board of Investment Balanced Fund
- ◆ 70/30 Wilshire 5000/Lehman Bond Aggregate

#### **XI. Reporting**

Annually the Fire Relief's investment policy will be sent to each investment manager, brokers and consultants who will be providing services to the fund. These investment professionals must acknowledge receipt of the statement and agree to abide by all applicable investment laws and restrictions.

Annually the Fire Relief's investment policy will be kept on file at the State Auditor's Office.

Annually an update of the financial condition of the Fire Relief should be made to the City of Bloomington's City Council.

#### **XII. Investment Policy Adoption**

The Fire Relief's Investment Policy shall be adopted by resolution by the Fire Relief Trustees.

**Adopted by Fire Relief Board of Trustees on December 18, 2001.  
Signed copy available in Relief Association Office Public Files.**

# Appendix A



JUDITH H. DUTCHER  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

SUITE 400  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
stateauditor@osa.state.mn.us (E-Mail)  
1-800-627-3529 (Relay Service)

March 13, 2002

Mr. John Bayard  
President  
Bloomington Fire Department  
Relief Association  
Fire Station #1  
10 West 95th Street  
Bloomington, Minnesota 55420

Dear Mr. Bayard:

I am pleased to report that the Office of the State Auditor has completed its audit of the Bloomington Fire Department Relief Association for the year ended December 31, 2001. Fifteen copies of the Association's financial statements, including the Independent Auditor's Report and our Report on Internal Control Over Financial Reporting and Minnesota Legal Compliance are being forwarded to you with this letter.

The primary purpose of our audit is to formulate an opinion on the Bloomington Fire Department Relief Association's financial statements. We also have a responsibility and commitment to assist you in maintaining and improving the Association's financial management system.

I am pleased to say that we have issued an "unqualified opinion" on the Bloomington Fire Department Relief Association's financial statements. This means that, in our opinion, the financial statements conform with applicable accounting standards.

In addition to formulating an opinion on the Bloomington Fire Department Relief Association's financial statements, we reviewed the Association's legal compliance and financial management practices. The Management and Compliance Section contains the results of that review.

If you have any questions about the report, please feel free to contact my Office.

Sincerely,

A handwritten signature in black ink that reads "Judith H. Dutcher".

Judith H. Dutcher  
State Auditor

JHD:kl



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**BLOOMINGTON FIRE DEPARTMENT  
RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**FOR THE YEAR ENDED DECEMBER 31, 2001**

**BLOOMINGTON FIRE DEPARTMENT  
RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**For the Year Ended December 31, 2001**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

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525 Park Street, Suite 400, St. Paul, MN 55103  
auditpractice@osa.state.mn.us  
www.osa.state.mn.us

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**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

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**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**ORGANIZATION  
DECEMBER 31, 2001**

		Term	
		From	To
<b>Board of Trustees</b>			
Elected members			
George Hayden		January 1998	March 2004
Steve Oberaigner		March 2001	March 2003
John Bayard		March 2000	March 2003
Chris Morrison		March 1999	March 2002
David Ellings		March 1999	March 2002
Dave Matlon		January 1998	March 2004
<b>Ex officio members</b>			
Mayor			
Gene Winstead			
City Chief Financial Officer			
Terri Heaton			
Chief of Fire Department			
Ulysses Seal			
<b>Officers</b>			
President			
John Bayard			
Vice President			
David Ellings			
Secretary			
Chris Morrison			
Treasurer			
Dave Matlon			
Investments			
George Hayden			



**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

SUITE 400  
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JUDITH H. DUTCHER  
STATE AUDITOR

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
stateauditor@osa.state.mn.us (E-Mail)  
1-800-627-3529 (Relay Service)

**INDEPENDENT AUDITOR'S REPORT**

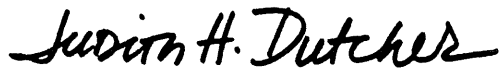
Board of Trustees  
Bloomington Fire Department  
Relief Association

We have audited the basic financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2001, as listed in the table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

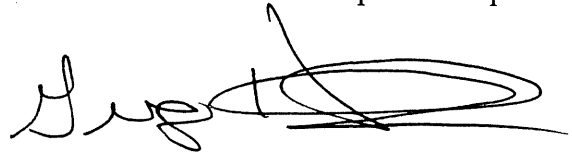
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net assets and changes in net assets of the Special Pension Trust Fund and the financial position and results of operations of the General Fund of the Bloomington Fire Department Relief Association as of December 31, 2001, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information referred to in the table of contents is not a required part of the basic financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures to this information, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



JUDITH H. DUTCHER  
STATE AUDITOR



GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

February 28, 2002

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**EXHIBIT A**

**STATEMENT OF PLAN NET ASSETS  
SPECIAL PENSION TRUST FUND  
DECEMBER 31, 2001**

**Assets**

<b>Investments, at fair value</b>	
U.S. government obligations	\$ 3,446,919
Corporate obligations	1,795,541
Corporate stock	20,393,278
Foreign securities	112,320
Commingled investment pools	
Mutual funds	44,223,413
State Board of Investment	24,062,997
	<hr/>
<b>Total investments, at fair value</b>	<b>\$ 94,034,468</b>
Accrued interest and dividends receivable	115,274
	<hr/>
<b>Total Assets</b>	<b>\$ 94,149,742</b>

**Liabilities**

Benefits payable	\$ 187,748
Accounts payable	1,330
	<hr/>
<b>Total Liabilities</b>	<b>\$ 189,078</b>
	<hr/>
<b>Net Assets Held in Trust for Pension Benefits (A Schedule of Funding Progress is presented on page 13)</b>	<b>\$ 93,960,664</b>
	<hr/> <hr/>

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

***EXHIBIT B***

**BALANCE SHEET  
GENERAL FUND  
DECEMBER 31, 2001**

**Assets**

Investments at fair value	\$ 59,697
Accrued interest and dividends receivable	83
Due from City of Bloomington	<u>10,848</u>
<b>Total Assets</b>	<b><u>\$ 70,628</u></b>

**Fund Balance**

Unreserved, undesignated	<b><u>\$ 70,628</u></b>
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**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**EXHIBIT C**

**STATEMENT OF CHANGES IN PLAN NET ASSETS  
SPECIAL PENSION TRUST FUND  
FOR THE YEAR ENDED DECEMBER 31, 2001**

**Additions**

**Investment income (loss)**

Interest and dividends	\$ 2,500,091
Net appreciation (depreciation) in fair value of investments	<u>(10,481,590)</u>

<b>Total investment income (loss)</b>	<b>\$ (7,981,499)</b>
---------------------------------------	-----------------------

Less: direct investment expense	<u>(182,228)</u>
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<b>Net investment income (loss)</b>	<b>\$ (8,163,727)</b>
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**Contributions**

State of Minnesota	<u>363,938</u>
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<b>Total Additions</b>	<b>\$ (7,799,789)</b>
------------------------	-----------------------

**Deductions**

Benefits and refunds paid to participants	\$ 2,248,525
Administrative expenses	<u>79,303</u>

<b>Total Deductions</b>	<b>\$ 2,327,828</b>
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<b>Net Increase (Decrease)</b>	<b>\$ (10,127,617)</b>
--------------------------------	------------------------

<b>Net Assets Held in Trust for Pension Benefits - January 1</b>	<b><u>104,088,281</u></b>
--	---------------------------

<b>Net Assets Held in Trust for Pension Benefits - December 31</b>	<b><u>\$ 93,960,664</u></b>
--	-----------------------------

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

***EXHIBIT D***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2001**

<b>Revenues</b>	
Investment revenue	
Interest and dividends	\$ 1,868
Membership contributions	<u>21,960</u>
<b>Total Revenues</b>	<b>\$ <u>23,828</u></b>
<b>Expenditures</b>	
Death benefits	\$ 2,000
Professional services	<u>15</u>
<b>Total Expenditures</b>	<b>\$ <u>2,015</u></b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 21,813</b>
<b>Fund Balance - January 1</b>	<b><u>48,815</u></b>
<b>Fund Balance - December 31</b>	<b>\$ <u><u>70,628</u></u></b>

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001**

**1. Reporting Entity**

Firefighters, retired and active, of the City of Bloomington are members of the Bloomington Fire Department Relief Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The Association was established April 1, 1947, and operates under the provisions of Minn. Laws 1965, ch. 446, as amended, and the applicable provisions of Minn. Stat. chs. 69, 424, and 424A. It is governed by a Board of Trustees made up of six members elected by the members of the Association for three-year terms, and the Mayor, City Treasurer, and Fire Chief, who serve as ex officio voting members of the Board.

**2. Plan Description**

**A. Membership Information**

At December 31, 2001, the membership of the Association consisted of:

Retirees and beneficiaries currently receiving benefits	133
Terminated employees entitled to benefits but not yet receiving them	11
Active plan participants - vested	<u>160</u>
Total	<u><u>304</u></u>

**B. Pension Benefits**

Twenty-Year Service Pension - Each member who is at least 50 years of age, has retained membership in the Association for ten years, and has 20 years of service with the Bloomington Fire Department is eligible to receive a full service monthly pension for the remainder of his or her life. Benefits are based on the most recent three-year average salary rates of the highest paid non-officer police officer in the City of Bloomington.



**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

2. Plan Description

B. Pension Benefits (Continued)

Disability Benefits - Whenever a member becomes disabled, the member shall receive a monthly pension based on the most recent three-year average salary rates of the highest paid non-officer police officer in the City of Bloomington. If the period of disability continues to the time when the member would qualify for a service pension, the member will be placed on the service pension rolls and disability benefits shall terminate. No benefits shall be paid for any disability of less than seven days duration.

Funeral Benefits - Upon the death of an Association member, the sum of \$500 shall be appropriated from the Special Fund to the designated beneficiary or estate to defray funeral costs. The General Fund will pay the beneficiary \$2,000.

3. Summary of Significant Accounting Policies

A. Basis of Accounting and Presentation

The resources of the Association are accounted for in two funds:

The Special Fund is a pension trust fund for the accumulation of resources to be used for retirement, dependency, and disability annuity payments of appropriate amounts and at appropriate times in the future. The accompanying Special Pension Trust Fund financial statements were prepared using the accrual basis of accounting and presented in accordance with Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. Under the accrual basis of accounting, revenues are recognized when they are earned, and expenses are recognized when the liability is incurred. Resources are derived from investment income and contributions by the State of Minnesota and are recognized when earned. Benefits and refunds are recognized when they are due and payable in accordance with the terms of the plan.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

3. Summary of Significant Accounting Policies

A. Basis of Accounting and Presentation (Continued)

The General Fund is a governmental fund which accounts for the resources other than those in the Special Pension Trust Fund. It is used for the good and benefit of the Association as determined by Association bylaws. The accompanying General Fund financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available. Expenditures are recorded when the related fund liability is incurred. Resources are derived from membership contributions and investment income. Revenues susceptible to accrual include interest and contributions.

B. Investments

Investments in the Special Pension Trust Fund and the General Fund are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on an exchange are valued at last reported sales price at the current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

No investment in any one organization represents five percent or more of the net assets available for pension benefits. There are no investments in, loans to, or leases with parties related to the pension plan.

C. Fixed Assets

The Association follows a policy of expensing purchases of fixed assets. Fixed asset purchases are considered insignificant to the operation of the Association as a whole and are not shown on the Statement of Plan Net Assets or the General Fund Balance Sheet (Exhibits A and B).

At December 31, 2001, the Association had equipment on hand costing \$11,142.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**4. Investments**

Minn. Stat. §§ 69.775 and 356A.06 authorize and define the types of securities available to the Association for investment. Generally accepted accounting principles have determined three levels of custodial credit risk for investments:

- (1) investments that are insured or registered, or for which the investments are held by the Association or its agent in the Association's name;
- (2) investments that are uninsured and unregistered and are held by the counterparty's trust department or agent in the Association's name; and
- (3) investments that are uninsured and unregistered and are held by the counterparty's trust department or agent, but not in the Association's name.

Following is a summary of the fair value of the Association's investments, categorized into the aforementioned levels of risk at December 31, 2001.

	Category			Carrying and
	1	2	3	Fair Value
Investments				
U.S. government obligations	\$ 3,446,919	\$ -	\$ -	\$ 3,446,919
Corporate obligations	1,795,541	-	-	1,795,541
Corporate stock	20,393,278	-	-	20,393,278
Foreign securities	<u>112,320</u>	<u>-</u>	<u>-</u>	<u>112,320</u>
Total	<u>\$ 25,748,058</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 25,748,058
Commingled investment pools				
Mutual funds				44,283,110
State Board of Investment				<u>24,062,997</u>
Total Investments				<u>\$ 94,094,165</u>
Special Pension Trust Fund				\$ 94,034,468
General Fund				<u>59,697</u>
Total Investments				<u>\$ 94,094,165</u>

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

5. Contributions

Authority for contributions to the pension plan is established by Minn. Stat. § 69.77. Employer and employee contributions are no longer required for the accumulation of assets to pay benefits as the pension plan is fully funded. Statutory contributions from the State of Minnesota are the only remaining funding source. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of: (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability, and (c) an allowance for administrative expenses. The current year has a contribution sufficiency.

6. Risk Management

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors; and omissions. The Association manages its risk of loss through the purchase of commercial insurance. There were no significant reductions in insurance from the previous year, nor have there been settlements in excess of insurance coverage for any of the past three fiscal years.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**Schedule 1**

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date - December 31</b>	<b>Actuarial Value of Plan Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll* (Previous Fiscal Year) (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
1996	\$ 74,763,000	\$ 58,807,600	\$ (15,955,400)	127.13%	\$ 6,620,388	(241.00%)
1997	87,829,787	59,322,179	(28,507,608)	148.06%	7,122,960	(400.22%)
1998	98,908,878	64,855,595	(34,053,283)	152.51%	7,523,040	(452.65%)
1999	110,084,568	66,819,827	(43,264,741)	164.75%	7,197,420	(601.11%)
2000	103,718,180	71,967,391	(31,750,789)	144.12%	8,262,000	(384.30%)
2001	93,960,664	76,035,748	(17,924,916)	123.57%	9,329,280	(192.14%)

\*Annual covered payroll is based on the assumption that each active plan member earns the most recent three-year average salary rates of the highest paid non-officer police officer in the City of Bloomington. Because all active plan members are volunteers, there is no actual payroll.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**Schedule 2**

**SCHEDULE OF CONTRIBUTIONS FROM THE PLAN SPONSOR  
AND OTHER CONTRIBUTING ENTITIES**

<b>Fiscal Year</b>	<b>Annual Required Contributions</b>	<b>City Contributions</b>	<b>City Percentage Contributed</b>	<b>State Contribution</b>	<b>State Percentage Contributed</b>
1996	\$ 720,327	\$ 1,249,500	173.46%	\$ 349,562	48.53%
1997	99,152	480,900	485.01%	340,683	343.60%
1998	(472,900)	NA	NA	355,234	(75.12%)
1999	(954,674)	NA	NA	360,549	(37.77%)
2000	(1,910,915)	NA	NA	370,100	(19.37%)
2001	(467,629)	NA	NA	363,938	(77.83%)

**Note:**

The annual required contributions are actuarially determined. The City and state are required by statute to make contributions, all of which have been made.

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001  
(Unaudited)**

Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on January 1, 2002. Significant methods are as follows:

- The most recent actuarial valuation date is January 1, 2002.
- Actuarial cost is determined using the Entry Age Normal Cost Method.
- Actuarial value of assets is market value.
- Any changes in the unfunded accrued liability are amortized as a level dollar amount over a new 30-year period.

Significant actuarial assumptions are as follows:

- Investment rate of return is five percent per annum.
- Payroll increase is 3.5 percent per annum.
- COLA increase is 3.5 percent per annum.
- Mortality assumptions for pre-retirement, post-retirement, and post-disability are:

Male: 1971 Group Annuity Mortality Table, without margins, projected to 1976 by Scale E.

Female: 1971 Group Annuity Mortality Table, without margins, projected to 1976 by Scale E set back seven years.

There have been no significant changes to plan provisions and actuarial methods and assumptions in the last six years, except the following:

- Effective for 1998, the City of Bloomington is no longer required to make additional contributions to the Fund. Remaining sources of funding from the State of Minnesota statutory contributions are projected to provide sufficient funds to meet emerging benefit liabilities.





# STATE OF MINNESOTA

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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Trustees  
Bloomington Fire Department  
Relief Association

We have audited the basic financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2001, and have issued our report thereon dated February 28, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

#### Internal Control Over Financial Reporting

The management of the Bloomington Fire Department Relief Association is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition,
- transactions are executed in accordance with management's authorization, and
- transactions are recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered the Bloomington Fire Department Relief Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Association's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below as item 01-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition is not considered to be a material weakness.

#### ITEM ARISING THIS YEAR

##### 01-1      Benefit Payroll Reconciliation

The Bloomington Fire Department Relief Association initiates changes to the benefit payroll and notifies its custodian bank responsible for issuing those checks. During 2001, seven changes to the benefit payroll were initiated. In three of these instances, overpayment of benefits resulted; \$1,129 was returned to the Association, and \$3,010 in overpaid benefits is still outstanding. In addition, three months of overpayments to a beneficiary for which a change in benefit payable had not been initiated were returned to the Association.

We recommend the Association reconcile, on an ongoing basis, the benefit payroll as reported by its custodian bank to expected changes documented by internal records. Similar reconciliations should be performed for the disability account.

Client's Response:

*The Bloomington Fire Department Relief Association is in the process of implementing internal business procedure changes with our custodian bank in an effort to improve overall communication. This improvement in communication should help reduce the potential of future overpayment errors. The Association's most difficult challenge continues to be proper and timely notification upon the death of a beneficiary. This concern will be addressed with all members at our annual meetings.*

*We will also implement monthly reconciliation of benefit payroll of the "Special Fund" with Union Bank & Trust. This procedure will ensure proper payments according to the Association's internal records.*

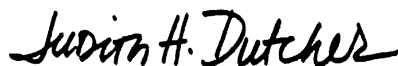
Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Local Government* contains three main categories of compliance to be tested in audits of relief associations: deposits and investments, conflicts of interest, and relief associations. Our study included all of these categories.

The results of our tests indicate that for the items tested, the Bloomington Fire Department Relief Association complied with the material terms and conditions of applicable legal provisions.

This report is intended for the use of the Bloomington Fire Department Relief Association and is not intended to be, and should not be, used by anyone other than that specified party.

We would like to express our appreciation to the Board of Trustees for its cooperation and assistance during the audit.



JUDITH H. DUTCHER  
STATE AUDITOR



GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

February 28, 2002

**BLOOMINGTON FIRE DEPARTMENT RELIEF ASSOCIATION  
BLOOMINGTON, MINNESOTA**

**OTHER ITEM FOR CONSIDERATION**

**Governmental Accounting Standards Board Statement**

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, which will change financial statement reporting and disclosure requirements in the future. Based on the Bloomington Fire Department Relief Association's fiscal year 1999 total additions of \$12,791,302 as reported on the statement of changes in plan net assets, the new financial reporting requirements will be effective for the Association for the fiscal year ending December 31, 2003. The Association should become knowledgeable on how these accounting pronouncements will affect its annual financial reporting.