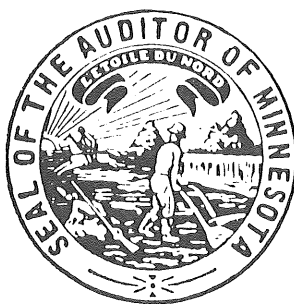


REPORT OF THE
STATE AUDITOR of MINNESOTA

880489

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

YEAR ENDED DECEMBER 31, 1987



ARNE H. CARLSON

State Auditor
St. Paul, Minnesota

REPORT OF THE STATE AUDITOR
ON THE
FINANCIAL AFFAIRS
OF THE
DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA
YEAR ENDED DECEMBER 31, 1987

The examination was conducted pursuant to Minn. Stat. § 6.49.

The Association operates under Minn. Laws 1953, Ch. 91,
as amended, and Minn. Stat. §§ 69.77 and 69.80.

ARNE H. CARLSON
State Auditor
Saint Paul, Minnesota

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

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INTRODUCTORY SECTION

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

ORGANIZATION
1987

Term Expires

Board of Governors

Elected Members

Robert Grytdahl

December 31, 1987

Patrick Alexander

December 31, 1987

Jeanette Laine

December 31, 1987

John Kalenowski

December 31, 1987

Thomas Ehle

December 31, 1987

Duluth Police Retirees' Association

Lawrence Stauber

December 31, 1987

Ex Officio Members

Leslie Bass, City Auditor

December 31, 1987

William Dinan, City Attorney

December 31, 1987

Larry Jeneson, City Treasurer

December 31, 1987

Officers

President

Clarence Weegman

December 31, 1987

Vice President

Thomas Unkovich

December 31, 1987

Secretary

Walter Peterson

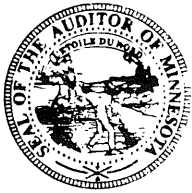
December 31, 1987

Treasurer

Larry Jeneson

December 31, 1987

FINANCIAL SECTION



ARNE H. CARLSON
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR
SUITE 400
525 PARK STREET
SAINT PAUL 55103

296-2551

AUDITOR'S OPINION

Board of Governors
Duluth Police Pension Association
City Hall
Duluth, Minnesota 55802

We have examined the general purpose financial statements of the Duluth Police Pension Association, as of and for the years ended December 31, 1987 and 1986, as listed in the table of contents. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 4 to the financial statements, as of January 1, 1988, the Duluth Police Pension Association consolidated with the public employees police and fire fund and ceased to exist.

Governmental Accounting Standards Board Statement No. 5 requires certain disclosures, including information disclosing a standardized measure of the pension obligation and certain ten-year historical trend information. As explained in Note 12 to the financial statements, this information has not been presented.

In our opinion, except for the omission of the information in the preceding paragraph, the general purpose financial statements referred to above present fairly the financial position of the Duluth Police Pension Association as of December 31, 1987 and 1986, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Arne H. Carlson
ARNE H. CARLSON
State Auditor

April 14, 1988

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

EXHIBIT A

COMPARATIVE BALANCE SHEET
DECEMBER 31, 1987 AND 1986

	<u>1987</u>	<u>1986</u>
<u>Assets</u>		
Investments	\$ 19,632,323	\$ 18,277,982
Interest receivable	274,163	241,151
Due from other governments	<u>616,407</u>	<u>713,234</u>
Total Assets	<u>\$ 20,522,893</u>	<u>\$ 19,232,367</u>
<u>Fund Balance</u>		
Fund Balance		
Required reserves	\$ 36,901,495	\$ 33,625,650
Unreserved		
Unfunded accrued liability	<u>(16,378,602)</u>	<u>(14,393,283)</u>
Total Fund Balance	<u>\$ 20,522,893</u>	<u>\$ 19,232,367</u>

The notes to the financial statements are an integral part of this statement.

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 1987 AND 1986

	Year Ended December 31,	
	Required Reserves	Unfunded Accrued Liability
Revenues		
City contributions	\$ 1,032,232	\$ -
Member contributions	244,464	-
State insurance premium tax	525,011	-
State amortization aid	248,456	-
Investment income	1,096,692	-
Net gain on sale of investments	828,487	-
Net unrealized appreciation (depreciation) in value of investments	(1,126,471)	-
Auction proceeds	4,352	-
Miscellaneous	130	-
Total Revenues	<u>\$ 2,853,353</u>	<u>\$ -</u>
Expenses		
Pensions	\$ 1,464,426	\$ -
Investment advisor fees	66,046	-
Travel	10,090	-
Salaries	4,511	-
Audit fees	2,016	-
Benefit cost analysis	-	-
Attorney fees	510	-
Office supplies	938	-
Dues and memberships	-	-
PERA merger	11,917	-
Faithful performance bond	139	-
Actuarial report	2,234	-
Total Expenses	<u>\$ 1,562,827</u>	<u>\$ -</u>
Net Fund Balance		
Additions	\$ 1,290,526	\$ -
Excess (deficiency) of required reserve	1,985,319	(1,985,319)
Fund Balance - January 1	<u>33,625,650</u>	<u>(14,393,283)</u>
Fund Balance - December 31	<u>\$ 36,901,495</u>	<u>\$ (16,378,602)</u>

The notes to the financial statements are an integral part of this statement.

EXHIBIT B

1987	Year Ended December 31, 1986		
Total	Required Reserves	Unfunded Accrued Liability	Total
\$ 1,032,232	\$ 1,161,215	\$ -	\$ 1,161,215
244,464	235,618	-	235,618
525,011	433,309	-	433,309
248,456	248,526	-	248,526
1,096,692	1,085,028	-	1,085,028
828,487	647,467	-	647,467
(1,126,471)	375,200	-	375,200
4,352	9,387	-	9,387
130	1,597	-	1,597
<u>\$ 2,853,353</u>	<u>\$ 4,197,347</u>	<u>\$ -</u>	<u>\$ 4,197,347</u>
\$ 1,464,426	\$ 1,424,994	\$ -	\$ 1,424,994
66,046	58,080	-	58,080
10,090	8,560	-	8,560
4,511	4,320	-	4,320
2,016	1,797	-	1,797
-	4,240	-	4,240
510	-	-	-
938	314	-	314
-	50	-	50
11,917	-	-	-
139	-	-	-
2,234	-	-	-
<u>\$ 1,562,827</u>	<u>\$ 1,502,355</u>	<u>\$ -</u>	<u>\$ 1,502,355</u>
\$ 1,290,526	\$ 2,694,992	\$ -	\$ 2,694,992
-	(1,701,544)	1,701,544	-
19,232,367	32,632,202	(16,094,827)	16,537,375
<u>\$ 20,522,893</u>	<u>\$ 33,625,650</u>	<u>\$ (14,393,283)</u>	<u>\$ 19,232,367</u>

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

EXHIBIT C

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
YEARS ENDED DECEMBER 31, 1987 AND 1986

	<u>1987</u>	<u>1986</u>
Sources of Working Capital		
Net fund balance additions	\$ <u>1,290,526</u>	\$ <u>2,694,992</u>
Elements of Net Increase in Working Capital		
Investments	\$ 1,354,341	\$ 2,602,411
Interest receivable	33,012	16,567
Accounts receivable	-	(12,242)
Member contributions receivable	-	(9,110)
Due from other governments	(96,827)	(102,963)
Accounts payable	<u>-</u>	<u>200,329</u>
Net Increase in Working Capital	\$ <u>1,290,526</u>	\$ <u>2,694,992</u>

The notes to the financial statements are an integral part of this statement.

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

NOTES TO THE FINANCIAL STATEMENTS

1. Form of Government

The Duluth Police Pension Association was established in 1905 under Minn. Gen. Stat. Title 3, ch. 34, and is now operating under Minn. Laws 1953, ch. 91, as amended, and the Police and Firefighter's Relief Association Guidelines Act of 1969. The purpose of the Association is to establish and maintain a fund to pay pensions to its disabled and retired members and to their surviving spouses and children. The Association is incorporated and is governed by a board of six elected members and three ex-officio members. The affairs of the Association are regulated by its articles of incorporation and its bylaws.

2. Financial Reporting Entity

The Duluth Police Pension Association has implemented the Governmental Accounting Standards Board's Codification Section 2100 (GASB Code sec. 2100), "Defining the Reporting Entity." For financial reporting purposes, the Association's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations over which the Association's officials exercise oversight responsibility.

3. Plan Description

A. General Information

Police officers of the City of Duluth are members of the Duluth Police Pension Association. The Association is the administrator of a single-employer defined benefit pension plan available to members hired prior to June 15, 1980, that was established in 1905, and operates under the provisions of Minn. Laws 1953, ch. 91, and Minn. Stat. §§ 69.77 and 69.80, as amended. It is governed by a board of five members elected by the members of the Association for five-year terms and one member elected by the Duluth Police Retirees' Association for a three-year term. The City Attorney, City Treasurer, and City Auditor are ex-officio members of the board. The terms of all Board members ended on December 31, 1987, as explained in Note 4 to the financial statements.

B. Pension Benefits

Minn. Stat. ch. 69 authorizes pension benefits for police pension associations. A member of the Association who has completed five years or more of service on the police department shall, after age 50 at retirement, be entitled to a monthly pension of not to exceed 40.8 units per month for life in accordance with the following schedule:

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

3. Plan Description

B. Pension Benefits (Continued)

For each year of service through 20 years	1.59 units
For the 21st year of service	1 unit
For each year of service in excess of 21 years	2 units

The unit shall be 1/80 of the current monthly salary of a first-class patrolman of the City of Duluth.

A member is entitled to disability benefits not to exceed 40.8 units per month.

A member of the Association who has performed service on the police department for five years or more but has not reached age 50, shall have the right to retire from the department without forfeiting the right to a service pension. The member shall, upon application, be placed on the deferred pension roll of the Association and, after the member has reached the age of 50 years, the Association shall, upon application, pay the member's pension from the date the application is approved by the Association.

At December 31, 1987, the membership of the Duluth Police Pension Association consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>131</u>
Current employees	
Vested	93
Nonvested	<u>-</u>
Total	<u>93</u>

4. Consolidation with Public Employees Retirement Association

Minn. Stat. ch. 353A authorizes, on a voluntary elective basis, any local police relief association and the respective municipality to effect the consolidation of the local relief association into the public employees police and fire fund. The Duluth Police Pension Association and the City of Duluth have elected to consolidate with the public employees police and fire fund effective January 1, 1988, and have completed the consolidation procedures necessary to effect the consolidation. As of January 1, 1988, the Duluth Police Pension Association shall cease to exist. All investment securities were transferred from the Duluth Police Pension Association's

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

4. Consolidation with Public Employees Retirement Association (Continued)

investment advisor to the Public Employee Retirement Association on December 29, 1987. Members of the Duluth Police Pension Association may elect to have benefit coverage provided under the relevant provisions of the public employees police and fire fund benefit plan or to retain benefit coverage provided under the relief association benefit plan on the effective date of the consolidation.

5. Summary of Significant Accounting Policies

A. Fund Accounting

The Pension Trust Fund accounts for the accumulation of resources to be used for retirement, dependency, and disability annuity payments at appropriate amounts and times in the future. Resources of the Pension Fund are contributed (a) by employees at rates fixed by law, (b) by the City of Duluth at amounts determined by law, and (c) from a two-percent insurance premium tax and amortization aid from the State of Minnesota.

B. Basis of Accounting

The financial statements were prepared using the accrual basis of accounting.

C. Investments

Investments are shown on the balance sheet at market value, and gains or losses in value of the investments are shown as increases or decreases on the Statement of Revenues, Expenses, and Changes in Fund Balance.

Interest and dividend revenue are recognized when earned.

D. Fixed Assets

The Association expenses all purchases of office equipment as they are considered insignificant to the operation as a whole.

6. Deposits and Investments

A. Deposits

Minn. Stat § 118.005 authorizes the Association to deposit its cash and to invest in certificates of deposits in financial institutions designated by the Association's Board of Governors. At December 31, 1987, the Association did not have any deposits or certificates.

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

6. Deposits and Investments (Continued)

B. Investments

Minn. Stat. §§ 69.77 and 11A.24 authorizes the types of securities available to the Association for investment. Generally accepted accounting principles have determined three levels of credit risk for securities:

1. Securities that are insured or registered, or for which the securities are held by the Association or its agent in the Association's name;
2. Securities that are uninsured and unregistered and are held by the broker's or dealer's trust department or agent in the Association's name;
3. Securities that are uninsured and unregistered and are held by the broker or dealer, or by its trust department or agent, but not in the Association's name.

Following is a summary of the cost values of the Association's securities, categorized into the aforementioned levels of risk along with the market values of the securities, at December 31, 1987.

	1987			Cost	Market Value
	1	2	3		
Investments					
U.S. Government Securities	\$ 3,320,044	\$ -	\$ -	\$ 3,320,044	\$ 3,704,895
Corporate Bonds	6,542,197	-	-	6,542,197	6,418,025
Stocks	7,506,456	-	-	7,506,456	6,996,252
Collateralized mortgage obligation	83,517	-	-	83,517	84,093
State Board of Investment money fund	<u>2,429,058</u>	<u>-</u>	<u>-</u>	<u>2,429,058</u>	<u>2,429,058</u>
Total Investments	<u>\$ 19,881,272</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,881,272</u>	<u>\$ 19,632,323</u>

The Duluth Police Pension Association's investments were transferred to the Public Employee Retirement Association on December 29, 1987. Prior to this date the investments were held by the Association's broker/dealer and were classified as category 3 in terms of the level of credit risk assumed by the Association.

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

7. Unfunded Accrued Liability

An actuarial valuation was made as of October 1, 1987, in connection with the consolidation of the Duluth Police Pension Association and the Public Employees Police and Fire Fund. The actuarial calculations were prepared using the entry age actuarial cost method. The actuarial calculations were made under three possible outcomes - all individuals elect Pension Association benefits, all individuals elect public employees police and fire fund benefits, and each individual elects the benefit plan which has the greater total benefit plan actuarial value. For purposes of the financial statements, the actuarial accrued liability reported is the greater total benefit plan actuarial value.

The unfunded accrued liability is \$16,378,602 at December 31, 1987, which is an increase of \$1,985,319 from the unfunded accrued liability of \$14,393,283 at December 31, 1986. This increase results from differences between benefits provided under the Duluth Police Pension Association plan and benefits provided under the Public Employees Retirement plan, and differences in actuarial assumptions between the two plans. The actuarial assumptions used in 1986 provide for annual salary increases of 3-1/2 percent and interest earnings of five percent. The 1987 actuarial assumptions provide for salary increases of 6-1/2 percent and interest earnings of eight percent (except under the PERA plan, post retirement interest earnings are assumed to be at five percent).

8. Funding of Retirement Plan

Prior to 1971, the City's contributions were made without regard to actuarial requirements, resulting in a substantial deficiency in the accumulation of reserves on an actuarial basis. This unfunded accrued liability is a deferred obligation of the City.

Tax levies for the police retirement plan are made pursuant to Minn. Stat. § 69.77, Subd. 2e. Full funding is required by the year 2010. State amortization aid is to be provided, as set forth in the law, to fully fund the unfunded accrued liability by the year 2010. The Duluth Police Pension Association received state amortization payments of \$248,456 and \$248,526 in 1987 and 1986, respectively.

Minn. Stat. § 69.77, subd. 2a provides that the minimum employee contribution shall be eight percent of the maximum salary upon which retirement coverage is credited and on which service pension and retirement benefit amounts are determined. The City of Duluth makes annual contributions to the pension plan equal to the amount required by Minn. Stat. § 69.77, subd. 2b.

Total contributions made during 1987 amounted to \$1,276,696, of which \$1,032,232 was made by the City, and \$244,464 was made by employees.

DULUTH POLICE PENSION ASSOCIATION
DULUTH, MINNESOTA

9. Contingent Liabilities

The Association is presently the defendant in a lawsuit brought by a retired police officer seeking disability pension benefits and punitive damages. The likelihood of an unfavorable outcome is minimal, except for back pay of retirement benefits estimated at \$20,000.

10. Related Party Investments

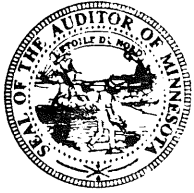
During 1987, the Duluth Police Pension Association held no securities issued by the City of Duluth or other related parties.

11. Government Accounting Standards Board Statement No. 5 Disclosures

GASB Statement No. 5 requires certain disclosures by Public Employee Retirement Systems. The disclosures required by this statement are intended to provide information needed to assess the (a) funding status of a person on a going-concern basis, (b) progress made in accumulating sufficient assets when due, and (c) whether employers are making actuarially determined contributions.

Because the Duluth Police Pension Association will cease to exist as of January 1, 1988, the above disclosures have not been included in their entirety. The information regarding the standardized measurement of the pension obligation is not available and the ten-year historical trend information has not been presented.

MANAGEMENT AND COMPLIANCE LETTER



ARNE H. CARLSON
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR
SUITE 400
525 PARK STREET
SAINT PAUL 55103

296-2551

May 27, 1988

Board of Governors
Duluth Police Pension Association
Room 104F, City Hall
Duluth, Minnesota 55802

We have examined the financial statements of the Duluth Police Pension Association as of and for the year ended December 31, 1987, and have issued our report thereon dated April 14, 1988. This letter resulting from part of that examination is organized into sections on internal accounting control, legal compliance, and previously reported items resolved.

INTERNAL ACCOUNTING CONTROL

As part of our examination, we made a study and evaluation of the system of internal accounting control of the Association to the extent we considered necessary to evaluate the system, as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

Receipts/revenues
Disbursements/expenses
Payroll
Cash management

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Association's financial statements. Our study was more limited than would be necessary to express an opinion on the system of internal accounting control as a whole or on any of the categories of controls identified above.

The Association's management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, management must make estimates and judgments that assess the expected benefits and related costs of control procedures. The objectives of a system are to provide 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 financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose of determining the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Association's financial statements, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the Association's system of internal accounting control taken as a whole or on any of the categories of controls identified. However, our study and evaluation disclosed no condition that we consider to be a material weakness.

LEGAL COMPLIANCE

The Minnesota Legal Compliance Audit Guide for Local Government covers 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 the listed categories. The results of our tests indicate that for the items tested, the Duluth Police Pension Association complied with the material terms and conditions of applicable legal provisions. Further, for the items not tested, based on our examination and the procedures referred to above, nothing came to our attention to indicate that the Duluth Police Pension Association had not complied with such legal provisions.

PREVIOUSLY REPORTED ITEMS RESOLVED

The following item included in our previous management letter dated July 29, 1987, has been implemented or otherwise resolved.

Item

The Association has no formal procedure to monitor out-of-town pensioners receiving benefits.

Resolution

In 1987, each pensioner was required to sign a notarized statement in connection with the consolidation process. The purpose of the statement was to indicate which pension plan benefits the pensioner elected to receive after consolidation. The statements were also used to satisfy the monitoring procedures for out-of-town pensioners.

* * * * *

This report is intended solely for the use by the Association and the City of Duluth, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Association, is a matter of public record.

We would like to express our appreciation to the Board members for their excellent cooperation and assistance during the audit.



ARNE H. CARLSON
State Auditor