

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

---

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

**FOR THE YEAR ENDED DECEMBER 31, 2014**

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@osa.state.mn.us  
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

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

**For the Year Ended December 31, 2014**



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

This page was left blank intentionally.

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

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Statement of Fiduciary Net Position	1	7
Statement of Changes in Fiduciary Net Position	2	8
Notes to the Financial Statements		9
Required Supplementary Information		
Schedule of Changes in Net Pension Asset and Related Ratio	A-1	20
Schedule of Employer Contributions	A-2	21
Schedule of Investment Returns	A-3	21
Notes to the Required Supplementary Information		22
<b>Management and Compliance Section</b>		
Schedule of Findings and Recommendations		25
Communication of Significant Deficiencies and/or Material Weaknesses in Internal Control over Financial Reporting and Other Matters		27
Independent Auditor's Report on Minnesota Legal Compliance		29

This page was left blank intentionally.



This page was left blank intentionally.



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

ORGANIZATION  
DECEMBER 31, 2014

	Term	
	From	To
Board of Trustees		
Elected members		
Dave Matlon	March 2013	March 2016
Paul Goodwin	March 2013	March 2016
Chris Morrison	March 2014	March 2017
Steve Oberaigner	March 2012	March 2015
John Bayard	March 2012	March 2015
Dennis Zwaschka	March 2014	March 2017
Municipal trustees		
Council Member		
Dwayne Lowman		
City Chief Financial Officer		
Lori Economy-Scholler		
Chief of Fire Department		
Ulysses Seal		
Officers		
President		
John Bayard		
Vice President		
Paul Goodwin		
Secretary		
Chris Morrison		
Treasurer		
Dave Matlon		

This page was left blank intentionally.



This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

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

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Bloomington Fire Department Relief Association  
Bloomington, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Bloomington Fire Department Relief Association as of December 31, 2014, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 2 to the financial statements, in 2014 the Association adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

March 17, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This page was left blank intentionally.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014  
(Unaudited)**

This discussion and analysis of the Bloomington Fire Department Relief Association's (Association) financial performance provides an overview of the Association's financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the basic financial statements, which follow this discussion. Prior year data have not been included in the basic financial statements or in the notes to the basic financial statements.

**FINANCIAL HIGHLIGHTS**

The Association's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2014, the funded ratio was 113.69 percent. Minnesota statutes previously required full funding by the year 2010. The amortization period was changed in 2005 from a level dollar amortization amount of the unfunded actuarial accrued liability to a 20-year rolling end date. The mortality assumptions were changed for the January 1, 2013, annual actuarial valuation.

The fiduciary net position of the pension fund administered by the Association increased by \$8.5 million during the 2014 fiscal year.

Additions to the fund for the year were \$13.2 million, comprised of contributions of \$3.2 million and net investment income of \$10 million. Fund additions decreased \$12.4 million from the prior fiscal year.

Deductions to the fund increased over the prior year from \$4.5 million to \$4.7 million, or 4.4 percent.

**The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position**

This annual financial report consists of two financial statements: the Statement of Fiduciary Net Position (page 7) and the Statement of Changes in Fiduciary Net Position (page 8). These financial statements report information about the Association as a whole and about its financial condition that should help answer the question: Is the Association better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the accrual basis of accounting, as is required by generally accepted accounting principles laid out in statements issued by the Governmental Accounting Standards Board (GASB), including the new accounting and financial reporting requirements found in GASB Statement 67.

The Statement of Fiduciary Net Position presents all of the Association’s assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the Association’s financial position is improving or deteriorating. The Statement of Changes in Fiduciary Net Position presents how the Association’s net position changed during the most recent fiscal year. These two statements should be reviewed along with accompanying notes to the financial statements and the Schedule of Changes in Net Pension Asset and Related Ratio, the Schedule of Employer Contributions, and the Schedule of Investment Returns, which are presented as required supplementary information, to determine whether the Association is becoming financially stronger or weaker and to understand changes over time in the funded status of the Association.

## FINANCIAL ANALYSIS

Association total assets as of December 31, 2014, were \$152.7 million and mostly comprised investments. Total assets increased \$8.5 million, or 5.9 percent, from fiscal year 2013. This increase represents “earnings” (contributions and investment income) exceeding “expenses” (benefits and refunds paid).

Total liabilities as of December 31, 2014, represent December benefits and investment fees paid in January 2015.

Association assets exceeded liabilities at the close of fiscal year 2014 by \$152.3 million. Total net position restricted for pensions increased \$8.5 million, or 5.9 percent, between fiscal years 2013 and 2014.

### Fiduciary Net Position (in Thousands)

	December 31	
	2014	2013
Assets		
Cash	\$ 17	\$ 7
Investments	152,677	144,157
Total Assets	\$ 152,694	\$ 144,164
Total Liabilities	389	372
Fiduciary Net Position	<u>\$ 152,305</u>	<u>\$ 143,792</u>

### Additions to Fiduciary Net Position

The reserves needed to finance pension benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income for fiscal year 2014 totaled \$13.2 million.

Total contributions and net investment income decreased \$12.4 million from those of fiscal year 2013, due primarily to decreased net investment gains. The City of Bloomington contributed \$3.2 million during 2014. The City contributed \$1.9 and the State of Minnesota contributed \$0.4 million during 2013. Investment income decreased from fiscal year 2013 by \$13.3 million.

### **Deductions from Fiduciary Net Position**

The primary deductions of the Association include the payment of pension benefits and the cost of administering the fund. Total deductions for fiscal year 2014 were \$4.7 million, an increase of 4.4 percent over fiscal year 2013 deductions. The increase in pension benefit expenses resulted from an increase in participants and an increased benefit rate. Administrative and other expenses decreased by \$6,000 between fiscal years 2013 and 2014.

#### **Changes in Fiduciary Net Position (in Thousands)**

	<u>Year Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Additions		
Contributions	\$ 3,189	\$ 2,331
Net investment income (loss)	9,994	23,294
	<u>\$ 13,183</u>	<u>\$ 25,625</u>
Deductions		
Benefits and refunds paid to participants	\$ 4,567	\$ 4,434
Administrative expenses	104	110
	<u>\$ 4,671</u>	<u>\$ 4,544</u>
Change in Net Position	<u>\$ 8,512</u>	<u>\$ 21,081</u>

### **THE ASSOCIATION AS A WHOLE**

The Association's fiduciary net position has experienced an \$8.5 million increase. This increase is a result of market earnings exceeding benefits and expenses. Considering the January 1, 2014, funded ratio of 110.95 percent, the Board believes that, with a gradual but steady market upturn, the Association is in a financial position to meet its current obligations. Although municipal contributions may be required, the Board will continue to maintain a prudent investment and strategic plan to obtain a full funded level.

This page was left blank intentionally.

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

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

*EXHIBIT 1*

**STATEMENT OF FIDUCIARY NET POSITION  
DECEMBER 31, 2014**

<b>Assets</b>	
<b>Cash and deposits</b>	
Cash - special account	<u>\$ 16,809</u>
<b>Receivables</b>	
Accrued interest and dividends receivable	\$ 21
Other receivables - general account	<u>265</u>
<b>Total receivables</b>	<u>\$ 286</u>
<b>Investments, at fair value</b>	
Corporate stock	\$ 6,202,234
Commingled investment pools	
State Board of Investment (SBI) accounts	131,644,762
Mutual funds - special account	8,838,145
Market linked certificates of deposit	3,063,750
Short-term cash equivalents - special account	2,737,740
Short-term cash equivalents - general account	<u>190,115</u>
<b>Total investments, at fair value</b>	<u>\$ 152,676,746</u>
<b>Total Assets</b>	<u>\$ 152,693,841</u>
<b>Liabilities</b>	
Accounts payable	\$ 1,355
Benefits payable	<u>387,958</u>
<b>Total Liabilities</b>	<u>\$ 389,313</u>
<b>Net Position</b>	
Net position restricted for pensions	\$ 152,114,148
Net position restricted for general account	<u>190,380</u>
<b>Total Net Position</b>	<u>\$ 152,304,528</u>

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

*EXHIBIT 2*

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<b>Additions</b>	
<b>Contributions</b>	
City of Bloomington	\$ 3,170,255
Other - general account	<u>18,480</u>
<b>Total contributions</b>	<b><u>\$ 3,188,735</u></b>
<b>Investment income (loss)</b>	
Net appreciation (depreciation) in fair value of investments	\$ 9,564,248
Interest and dividends	<u>560,897</u>
<b>Total investment income (loss)</b>	<b><u>\$ 10,125,145</u></b>
Less: direct investment expense	<u>(130,675)</u>
<b>Net investment income (loss)</b>	<b><u>\$ 9,994,470</u></b>
<b>Total Additions</b>	<b><u>\$ 13,183,205</u></b>
<b>Deductions</b>	
Benefit payments	\$ 4,566,912
Administrative expenses	83,410
Other - general account	<u>20,428</u>
<b>Total Deductions</b>	<b><u>\$ 4,670,750</u></b>
<b>Net Increase (Decrease) in Net Position</b>	<b><u>\$ 8,512,455</u></b>
<b>Net Position - January 1</b>	<b><u>143,792,073</u></b>
<b>Net Position - December 31</b>	<b><u><u>\$ 152,304,528</u></u></b>



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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

---

---

1. Plan Description

A. Organization

Plan Administration

The Association is the administrator of a single-employer defined benefit pension plan available to firefighters, retired and active, of the City of Bloomington. The plan operates under the provisions of Minn. Stat. §§ 69.051 and 69.80; 2013 Minn. Laws, ch. 111, art. 5, §§ 31 to 42; Minn. Stat. ch. 424 (2000) (to the extent applicable) *see* 2002 Minn. Laws, ch. 392, art. 1, § 7; and 1965 Minn. Laws, ch. 446, as amended. The assets of the fund are dedicated to providing pension benefits to the plan members.

Reporting Entity

The Association was established April 1, 1947. 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 three members who serve as ex officio voting members of the Board, drawn from the City of Bloomington, and shall include one elected City official, one elected or appointed City official designated by the City Council, and the Fire Chief. The Association is not a component unit of the city.

B. Plan Membership

At December 31, 2014, the membership of the Association consisted of:

Retirees and beneficiaries currently receiving benefits	187
Terminated employees entitled to benefits but not yet receiving them	17
Active plan participants - vested	5
Active plan participants - non-vested	<u>120</u>
Total	<u>329</u>

C. Benefit Provisions

Authority for payment of pension benefits is established in Minn. Stat. § 69.77 and may be amended only by the Minnesota State Legislature. *See* 2013 Minn. Laws, ch. 111, art. 5, §§ 31 to 42 and 80.

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

---

---

1. Plan Description

C. Benefit Provisions (Continued)

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.

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.

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

D. Contributions

Authority for contributions to the pension plan is established by Minn. Stat. § 69.77 and may be amended only by the Minnesota State Legislature. *See* 2013 Minn. Laws, ch. 111, art. 5, §§ 31 to 42 and 80. There are no employee contributions. The City of Bloomington provided statutory contributions in 2014. The actuary compares the actual statutory 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.

2. Summary of Significant Accounting Policies

A. Basis of Presentation and Basis of Accounting

The accompanying financial statements were prepared and are presented to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB).

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

---

---

2. Summary of Significant Accounting Policies

A. Basis of Presentation and Basis of Accounting (Continued)

The basis of accounting is the method by which additions and deductions to fiduciary net position are recognized in the accounts and reported in the financial statements. The Association uses the accrual basis of accounting. Under the accrual basis of accounting, additions are recognized when they are earned, and deductions are recognized when the liability is incurred.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, established new reporting standards for state and local governmental pension plans and is effective for the Association's December 31, 2014, financial statements. GASB Statement 67 requires changes in the presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of the total pension liability, the net pension asset or liability, the sensitivity of the net pension asset or liability to the discount rate, and increased investment activity disclosures.

No restatements of the December 31, 2013, net fiduciary position occurred as a result of adopting GASB Statement 67.

B. Investments

The Association's investment policy is established and may be amended by its Board with a majority vote of its members. There were no changes to the investment policy during 2014.

Investments 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.

The Association invests in an external investment pool, the State Board of Investments (SBI), which is governed by Minn. Stat. ch. 356A, as well as other standards. All securities are valued at fair value, except for U.S. Government short-term securities and commercial paper, which are valued at fair value less accrued interest.

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. Investment income is recognized as earned.

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

---

---

2. Summary of Significant Accounting Policies

B. Investments (Continued)

Asset Allocation - It is the policy of the Association to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation policy as of December 31, 2014.

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	50%
International Equity	10%
Fixed Income	35%
Cash	5%

Concentration - The Association's investment policy limits investments in any one issuer to not more than five percent unless the manager has received prior approval, or the increase is a result of market price increase. U.S. Treasuries and agencies along with commingled investment pools are exempted. The Association's investments as of December 31, 2014, were below these limits.

Rate of Return - The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.01 percent.

C. Capital Assets

The Association follows a policy of expensing purchases of capital assets. Capital asset purchases are considered insignificant to the operation of the Association as a whole and are not shown on the Statement of Fiduciary Net Position (Exhibit 1).

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

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

---

3. Deposits and Investments

A. Deposits

Authority

The Association is authorized by Minn. Stat. § 356A.06 to deposit its cash in financial institutions designated by the Board of Trustees.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Association's deposits may not be recovered. The Association's policy for custodial credit risk is to maintain compliance with Minnesota statutes that require all the Association's deposits be protected by insurance, surety bond, or pledged collateral. The Association's deposits at December 31, 2014, are completely protected and, therefore, there is no custodial credit risk for deposits.

B. Investments

Authority

The types of securities available to the Association for investment are authorized and defined by 2013 Minn. Laws, ch. 111, art. 5, § 38 and 356A.06. Permissible investments include, but are not limited to: government and corporate bonds, foreign and domestic common stock, real property, venture capital investments, and notes. The Association invests primarily in commingled investment pools through the SBI and mutual funds.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Association will not be able to recover the value of the investment or the collateral securities in the possession of an outside party.

According to Association policy, all securities purchased by the Association are held by a third-party safekeeping agent appointed as custodian.

The Association has no custodial credit risk for investments at December 31, 2014.

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

---

3. Deposits and Investments

B. Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates of debt investments will adversely affect the fair value of an investment.

The Association manages its exposure to fair value of loss arising from changing interest rates by having fixed income investments with varying maturity dates.

At December 31, 2014, the Association had \$29,621,194 in the SBI's Supplemental Investment Fund Bond Market Account. This account invests the large majority of its assets in high quality government and corporate bonds and mortgage securities that have intermediate to long-term maturities, usually 3 to 20 years. The managers of this account also may attempt to earn returns by anticipating changes in interest rates and adjusting holdings accordingly. This account is invested entirely in fixed income securities.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota statutes provide for the types of fixed income investments that a pension plan can make. In addition, the Association establishes other restrictions that are set forth in the investment guidelines for the management of the Association's fixed income assets.

This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The strategy of the Association's Board of Trustees is to purchase intermediate to long-term investment grade bonds with a "buy and hold" emphasis. The Board's emphasis is consistent regardless of the current interest rate. Bonds are typically redeemed only at maturity.

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

---

---

3. Deposits and Investments

B. Investments

Credit Risk (Continued)

The following table shows the Association's investments by type and credit quality rating at December 31, 2014.

<u>Debt Investment Type</u>	<u>Fair Value</u>	<u>Unrated</u>
Mutual funds	\$ 3,626,006	\$ 3,626,006
SBI Bond Market Account	29,621,194	29,621,194
Totals	<u>\$ 33,247,200</u>	<u>\$ 33,247,200</u>

While the majority of the holdings in the SBI's Supplemental Investment Fund Bond Market Account will be top-rated "investment grade" issues, some managers are authorized to hold a small proportion of higher yielding or "below-investment grade" debt issues as well. The aggregate holdings in "below-investment grade" debt are expected to be no more than ten percent of the account at any point in time.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates of foreign currencies relative to the U.S. dollar will adversely affect the fair value of an investment or a deposit. The Association limits this risk in several ways. Minnesota statutes limit certain investments to a total portfolio limit of no more than 35 percent of the market value of the portfolio. Both international equities and international bonds are in this category. Other items include venture capital, real estate, and partnerships.

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

---

3. Deposits and Investments

B. Investments

Foreign Currency Risk (Continued)

Risk of loss arises from changes in currency exchange rates. The Association's exposure to foreign currency risk at December 31, 2014, is presented in the following table.

<u>Country - Currency</u>	<u>Total</u>	<u>Stocks in ADR</u>	<u>Stocks</u>
Canada - Canadian Dollar	\$ 105,613	\$ -	\$ 105,613
Germany - Euro	109,200	109,200	-
Ireland - Euro	75,117	-	75,117
Israel - Israeli Shekel	177,418	177,418	-
Japan - Japanese Yen	103,681	103,681	-
Switzerland - Swiss Franc	70,978	70,978	-
Totals	<u>\$ 642,007</u>	<u>\$ 461,277</u>	<u>\$ 180,730</u>

In addition, of the Association's holdings in mutual funds and the SBI's Supplemental Investment Fund Accounts totaling \$140,482,907, the following are international equity funds:

<u>Fund</u>	<u>Fair Value</u>
SBI International Share Account	\$ 14,638,174
Parr Financial Group (various funds within account)	<u>1,769,956</u>
Total	<u>\$ 16,408,130</u>

While the managers of the SBI's Supplemental Investment Fund Bond Market Account invest primarily in the U.S. bond market, some are authorized to invest a small portion of their portfolios in non-U.S. bonds. The aggregate holdings in non-U.S. debt are expected to be no more than ten percent of the account at any point in time.



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

4. Net Pension Asset

The components of the net pension asset of the City of Bloomington at December 31, 2014, were as follows:

Net Pension Asset			
(a)	(b)	(a-b)	(b/a)
Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
\$ 133,798,748	\$ 152,114,148	\$ (18,315,400)	113.69%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2015, based on the measurement date of December 31, 2014, and using the following actuarial assumptions. The plan has not had a formal actuarial experience study performed.

- investment rate of return is six percent;
- index salary increase is four percent;
- Cost of Living Adjustment increase is based on increases in index salary;
- inflation rate assumption is built in to other rate assumptions;
- Entry Age Normal actuarial cost method; and
- mortality assumptions for pre-retirement, post-retirement, and post-disability are:

Pre-retirement: RP 2000 Non-annuitant Table with white collar adjustment, generationally projected using Scale AA, and set back two years for males and females.

Post-retirement: RP 2000 Annuitant Mortality Table with white collar adjustment, generationally projected using Scale AA for males and females.

Post-disability: RP 2000 Non-annuitant Mortality Table with white collar adjustment, set forward eight years for males and females.

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

---

4. Net Pension Asset (Continued)

B. Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per the actuary's investment consulting practice as of January 1, 2015.

Asset Class	Long-Term Expected Geometric Real Rate of Return
Cash	0.43%
Core Fixed Income	2.00%
Broad U.S. Equities	4.07%
Large Cap U.S. Equities	3.97%
Developed Foreign Equities	4.66%

C. Discount Rate

The discount rate used to measure the total pension liability was 6.00 percent. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at the actual statutory contribution rate. Based on those assumptions, the Association's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

D. Sensitivity Analysis

The following presents the net pension asset calculated using the discount rate of 6.00 percent, as well as what the net pension (asset)/liability would be if it were calculated using a discount rate that is one-percentage-point lower (5.00 percent) or one-percentage-point higher (7.00 percent) than the current rate:

	1% Decrease (5.0%)	Current Discount Rate (6.00%)	1% Increase (7.0%)
Net Pension (Asset)/Liability	\$ 4,697,001	\$ (18,315,400)	\$ (36,420,891)

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

---

5. 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.

This page was left blank intentionally.

**REQUIRED SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

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

**EXHIBIT A-1**

**SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIO**

<b>Fiscal Year</b>	<b>2014</b>
<b>Total Pension Liability</b>	
Service cost	\$ 3,047,649
Interest on the total pension liability	7,443,533
Economic/demographic gains or losses	(1,567,433)
Benefit payments	(4,566,912)
	<hr/>
<b>Net change in total pension liability</b>	<b>\$ 4,356,837</b>
<b>Total Pension Liability - Beginning</b>	<b>129,441,911</b>
	<hr/>
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 133,798,748</b>
	<hr/> <hr/>
<b>Plan Fiduciary Net Position</b>	
Employer contributions	\$ 3,170,255
Net investment income	9,982,524
Benefit payments	(4,566,912)
Pension plan administrative expense	(83,410)
	<hr/>
<b>Net change in plan fiduciary net position</b>	<b>\$ 8,502,457</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>143,611,691</b>
	<hr/>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 152,114,148</b>
	<hr/> <hr/>
<b>Net Pension Asset - Ending (a)-(b)</b>	<b>\$ (18,315,400)</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>113.69%</b>
<b>Covered Payroll *</b>	<b>\$ 10,110,384</b>

**Notes:**

This schedule is built prospectively until it contains ten years of data.

\*Covered payroll is based on the assumption that each active plan member earns the most recent salary rate 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.

(Unaudited)

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

*EXHIBIT A-2*

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
AND OTHER CONTRIBUTING ENTITIES**

<b>Fiscal Year Ending December 31</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Employer Contributions</b>	<b>Contribuiton Deficiency (Excess)</b>	<b>Covered Payroll*</b>
2005	\$ 1,376,446	\$ 2,162,105	\$ (785,659)	\$ 8,517,612
2006	361,942	1,447,592	(1,085,650)	8,721,504
2007	(520,335)	517,023	(1,037,358)	8,672,256
2008	(150,559)	439,902	(590,461)	9,970,800
2009	3,451,507	372,096	3,079,411	10,235,736
2010	3,316,111	3,625,942	(309,831)	9,790,704
2011	2,105,542	3,486,392	(1,380,850)	10,059,924
2012	2,199,801	2,214,206	(14,405)	9,069,840
2013	3,016,121	2,312,826	703,295	9,668,988
2014	1,630,173	3,170,255	(1,540,082)	10,110,384

\*Covered payroll is based on the assumption that each active plan member earns the most recent salary rate 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.

(Unaudited)

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

*EXHIBIT A-3*

**SCHEDULE OF INVESTMENT RETURNS**

Annual money-weighted rate of return net of investment expense.

<b>Fiscal Year</b>	<b>Annual Return</b>
2014	7.01%

**Note:**

This schedule is built prospectively until it contains ten years of data.

(Unaudited)



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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2014**

---

---

Significant Plan Provision and Actuarial Methods and Assumption Changes

From 2005 to 2014 there were no significant changes to plan provisions or actuarial methods and assumptions, with the following exception:

2005

The interest rate of return assumption was changed from 5 to 6 percent per annum. In addition, the payroll increase and the COLA increase assumptions were changed from 3.5 to 4 percent per annum.

The unfunded accrued liability amortization method and period changed from a level dollar amount to December 31, 2010, and a closed amortization approach to a 20-year rolling end date. Under the 20-year rolling end date approach, whenever the actuarial accrued liability initially exceeds current assets, the initial unfunded actuarial accrued liability is amortized as a level dollar amount over 20 years. Subsequent changes in the unfunded actuarial accrued liability that results from actuarial gains and losses, assumption changes, and plan amendments will generate a base that shall be amortized as a level amount over 20 years from the date of the establishment of the base. Otherwise, 10 percent of the excess of current assets over the actuarial accrued liability is treated as a supplemental credit and any amortization bases that existed prior to the plan's current assets exceeding the actuarial accrued liabilities are considered fully amortized.

2012

The index salary increases (salary increases) were reduced from four percent per annum to two percent per for one year, 2013, and resume at four percent per annum thereafter.

The COLA increases, previously four percent per annum, are now based on increases in index salary.

Mortality assumptions were changed:

Previously, pre-retirement, post-retirement, and post-disability mortality assumptions were based on the 1971 Group Annuity Mortality Table, without margins, projected to 1976 by Scale E for males, set back seven years for females.

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

---

---

Significant Plan Provision and Actuarial Methods and Assumption Changes

2012 (Continued)

Currently, the assumptions are:

- Pre-retirement: RP 2000 Non-annuitant Table with white collar adjustment, generationally projected using Scale AA, and set back two years for males and females.
- Post-retirement: RP 2000 Annuitant Mortality Table with white collar adjustment, for males and females.
- Post-disability: RP 2000 Non-annuitant Mortality Table with white collar adjustment, set forward eight years for males and females.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The Association is funded with contributions from the City of Bloomington. The actuarially determined contributions in the Schedule of Employer Contributions are calculated as of the beginning of the fiscal year in which contributions were reported.

The following methods and assumptions were used to calculate the actuarially determined contributions reported in the most recent fiscal year end.

- The most recent actuarial valuation date is January 1, 2015.
- Actuarial cost is determined using the Entry Age Normal Cost Method.
- The actuarial value of assets is market value.
- The unfunded accrued liability is amortized using a 20-year rolling end date.
- Investment rate of return is six percent.
- Index salary increase is four percent.
- Cost of Living Adjustment increase is based on increases in index salary (four percent).
- The inflation rate assumption is built in to other rate assumptions.

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

---

---

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions  
(Continued)

- Mortality assumptions for pre-retirement, post-retirement, and post-disability are:
  - Pre-retirement: RP 2000 Non-annuitant Table with white collar adjustment, generationally projected using Scale AA, and set back two years for males and females.
  - Post-retirement: RP 2000 Annuitant Mortality Table with white collar adjustment, generationally projected using Scale AA for males and females.
  - Post-disability: RP 2000 Non-annuitant Mortality Table with white collar adjustment, set forward eight years for males and females.

This page was left blank intentionally.



This page was left blank intentionally.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

Finding 2007-001

**Internal Control/Segregation of Duties**

**Criteria:** Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system.

**Condition:** The Association uses an organization to make payments and transfers. The Association has one individual who has the ability to authorize these transactions without the approval of any other Board of Trustees member.

**Context:** It is not unusual for an organization the size of the Bloomington Fire Department Relief Association to be limited in the internal control that management can design and implement into the organization.

**Effect:** The Association is relying on controls of entities outside of the organization.

**Cause:** The size of the Bloomington Fire Department Relief Association and its staffing limits the internal control that management can design and implement into the organization.

**Recommendation:** The Board of Trustees should be aware that segregation of duties is not adequate from an internal control point of view. We recommend the Board of Trustees be mindful that limited staffing causes inherent risks in safeguarding the Association's assets and the proper reporting of its financial activity. We recommend the Board of Trustees continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

*The Bloomington Fire Department Relief Association Board of Trustees has identified and continues to manage the segregation of duties as an inadequate internal control. Union Bank & Trust serves as our financial custodian and our accountant Sharyn North, continues to provide additional oversight of our daily operations through a consistent process of checks and balances.*





REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

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

## COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND/OR MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS

Board of Trustees  
Bloomington Fire Department Relief Association  
Bloomington, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements, and have issued our report thereon dated March 17, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bloomington Fire Department Relief Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit was also not designed to identify deficiencies in internal control over financial reporting that might be significant deficiencies. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency is reported in the Schedule of Findings and Recommendations as item 2007-001.

### **Bloomington Fire Department Relief Association's Response to the Finding**

The Bloomington Fire Department Relief Association's written response to the internal control finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Association's response and, accordingly, we express no opinion on it.

### **Purpose of This Report**

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the Association, and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

March 17, 2015



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

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

## INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Trustees  
Bloomington Fire Department Relief Association  
Bloomington, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Bloomington Fire Department Relief Association as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued our report thereon dated March 17, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains three categories of compliance to be tested in connection with audit of the Bloomington Fire Department Relief Association's financial statements: the deposits section of deposits and investments, conflicts of interest, and relief associations. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Bloomington Fire Department Relief Association failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Association's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the Bloomington Fire Department Relief Association and the State Auditor and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

March 17, 2015

Page 29