

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

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

FOR THE YEAR ENDED DECEMBER 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

For the Year Ended December 31, 2004



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

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

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		3
Basic Financial Statements		
Statement of Plan Net Assets	Exhibit A	6
Statement of Changes in Plan Net Assets	Exhibit B	7
Notes to the Basic Financial Statements		8
Required Supplementary Information		
Schedule of Funding Progress	Schedule 1	13
Schedule of Contributions from the Plan Sponsor and Other Contributing Entities	Schedule 2	14
Notes to the Required Supplementary Information		15
Management and Compliance Section		
Report on Minnesota Legal Compliance		16

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

ORGANIZATION
DECEMBER 31, 2004

	Term	
	From	To
Board of Trustees		
Elected members		
George Hayden	March 2004	March 2007
Steve Oberaigner	March 2003	March 2006
John Bayard	March 2003	March 2006
Chris Morrison	March 2002	March 2005
David Ellings	March 2002	March 2005
Dave Matlon	March 2004	March 2007
 Ex officio members		
Mayor		
Gene Winstead		
City Chief Financial Officer		
Lori Economy-Scholler		
Chief of Fire Department		
Ulysses Seal		
 Officers		
President		
John Bayard		
Vice President		
David Ellings		
Secretary		
Chris Morrison		
Treasurer		
Dave Matlon		
Investments		
George Hayden		

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PATRICIA ANDERSON
STATE AUDITOR

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, 2004, 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 plan net assets of the Bloomington Fire Department Relief Association as of December 31, 2004, and the changes in plan net assets 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 Management's Discussion and Analysis and other required supplementary information referred to in the table of contents are not required parts of the basic financial statements but are 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.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 21, 2005

Page 2

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(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, 2004. 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, 2004, the funded ratio was 115.12 percent. Minnesota statutes require full funding by the year 2010.

The plan net assets of the pension fund administered by the Association increased by \$9.4 million during the 2004 fiscal year.

Additions to the fund for the year were \$12.3 million, comprised of contributions of \$3.6 million and investment gains of \$8.7 million. Fund additions decreased \$3.9 million from the prior fiscal year.

Deductions to the fund increased over the prior year from \$2.7 million to \$2.8 million or four percent.

The Statement of Plan Net Assets and The Statement of Changes in Plan Net Assets

This annual financial report consists of two financial statements: The Statement of Plan Net Assets (page 6) and The Statement of Changes in Plan Net Assets (page 7). 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, as a whole, 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. Under the accrual basis of accounting, all additions and deductions are taken into account regardless of when cash is received or paid.

The Statement of Plan Net Assets presents all of the Association's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the Association's financial position is improving or deteriorating. The

Statement of Changes in Plan Net Assets presents how the Association's net assets changed during the most recent fiscal year. These two statements should be reviewed along with the Schedule of Funding Progress and Schedule of Contributions from the Plan Sponsor 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, 2004, were \$101.7 million and mostly comprised investments and accrued investment income. Total assets increased \$9.5 million or 10 percent from fiscal year 2003 primarily due to increased investment earnings.

Total liabilities as of December 31, 2004, represent December benefits and investment fees paid in January 2005.

Association assets exceeded its liabilities at the close of fiscal year 2004 by \$101.4 million. Total net assets held in trust for pension benefits increased \$9.4 million or 10 percent between fiscal years 2003 and 2004, primarily due to favorable market conditions.

	Plan Net Assets (In Thousands)	
	Year Ended December 31	
	2004	2003
Assets		
Cash	\$ 9	\$ -
Receivables	45	48
Investments	101,642	92,195
Total Assets	\$ 101,696	\$ 92,243
Total Liabilities	246	234
Plan Net Assets	\$ 101,450	\$ 92,009

Additions to Plan Net Assets

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 the fiscal year 2004 totaled \$12.3 million.

Total contributions and net investment income decreased \$3.9 million from those of fiscal year 2003, due primarily to market conditions. Total contributions from the City of Bloomington and the State of Minnesota increased between fiscal years 2003 and 2004 by \$2.4 million. This increase is primarily due to an increase in the contribution rate. Investment income decreased from fiscal year 2003 by \$6.3 million.

Deductions from Plan Net Assets

The primary deductions of the Association include the payment of pension benefits and the cost of administering the fund. Total deductions for fiscal year 2004 were \$2.8 million, an increase of four percent over fiscal year 2003 expenses. The increase in pension benefit expenses resulted from an increase in participants and an increased benefit rate. Administrative expenses decreased by \$1,728 between fiscal years 2003 and 2004.

Changes in Plan Net Assets (In Thousands)

	Year Ended December 31	
	2004	2003
Additions		
Contributions	\$ 3,631	\$ 1,258
Net investment income	8,665	14,949
Total Additions	\$ 12,296	\$ 16,207
Deductions		
Benefits and refunds paid to participants	\$ 2,775	\$ 2,654
Administrative expenses	80	82
Total Deductions	\$ 2,855	\$ 2,736
Net Increase	\$ 9,441	\$ 13,471

The Association as a Whole

For the second year, the Association's net assets have experienced an increase following decreases in the previous years. This increase is a result of a moderate national economic upturn that resulted in investment income earnings. The Board of Trustees believes, and actuarial studies agree, that the Association is in a financial position to meet its current obligations. The Board believes the current financial position has improved, in part, due to a prudent investment program and strategic planning.

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BASIC FINANCIAL STATEMENTS

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

EXHIBIT A

**STATEMENT OF PLAN NET ASSETS
DECEMBER 31, 2004**

Assets	
Cash and deposits	
Cash - special account	\$ 8,645
Receivables	
Accrued interest and dividends receivable	\$ 35,458
Other receivables - general account	9,644
Total receivables	\$ 45,102
Investments, at fair value	
U.S. government obligations	\$ 1,567,230
Corporate obligations	986,251
Corporate stock	7,002,853
Commingled investment pools	
State Board of Investment	78,952,920
Mutual funds - special account	13,034,565
Mutual fund - general account	98,436
Total investments, at fair value	\$ 101,642,255
Total Assets	\$ 101,696,002
Liabilities	
Accounts payable	\$ 14,431
Benefits payable	231,601
Total Liabilities	\$ 246,032
Net Assets	
Net Assets Held in Trust for Pension Benefits (A Schedule of Funding Progress is presented on page 13.)	\$ 101,341,890
Net assets restricted for general account	108,080
Total Net Assets	\$ 101,449,970

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

EXHIBIT B

**STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Additions	
Contributions	
City of Bloomington	\$ 2,986,280
State of Minnesota	625,566
Other - general account	<u>19,909</u>
Total contributions	\$ 3,631,755
Investment income (loss)	
Net appreciation (depreciation) in fair value of investments	\$ 7,988,033
Interest and dividends	<u>755,281</u>
Total investment income (loss)	\$ 8,743,314
Less: direct investment expense	<u>(78,689)</u>
Net investment income (loss)	\$ 8,664,625
Total Additions	\$ 12,296,380
Deductions	
Benefits and refunds paid to participants	\$ 2,775,354
Administrative expenses	64,224
Other - general account	<u>16,000</u>
Total Deductions	\$ 2,855,578
Net Increase (Decrease)	\$ 9,440,802
Net Assets - January 1	<u>92,009,168</u>
Net Assets - December 31	<u>\$ 101,449,970</u>

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

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, 2004, the membership of the Association consisted of:

Retirees and beneficiaries currently receiving benefits	147
Terminated employees entitled to benefits but not yet receiving them	8
Active plan participants - vested	8
Active plan participants - non-vested	<u>126</u>
Total	<u>289</u>

B. Pension Benefits

Authority for payment of pension benefits is established in Minn. Stat. § 69.77 and may be amended only by the Minnesota State Legislature.

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 account to the designated beneficiary or estate to defray funeral costs. The general account will pay the beneficiary \$2,000.

3. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and with Statements No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended.

B. Basis of Accounting

The basis of accounting is the method by which additions and deductions to plan net assets 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.

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

3. Summary of Significant Accounting Policies (Continued)

C. Net Assets

Net assets consist of:

- Net Assets Held in Trust for Pension Benefits represents the portion of net assets to be used to provide benefits for retirement, death, and disability payments of appropriate amounts and at appropriate times in the future.
- Net Assets Restricted for General Account represents the portion of net assets, derived from membership contributions and certain investment income, to be used for the good and benefit of the Association as determined by Association bylaws.

D. Investments

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.

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.

E. 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 (Exhibit A).

At December 31, 2004, the Association had equipment on hand costing \$8,414.

**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, 2004.

	Credit Risk Category	Carrying and Fair Value
Investments		
U.S. government obligations	1	\$ 1,567,230
Corporate obligations	1	986,251
Corporate stock	1	7,002,853
Total		\$ 9,556,334
 Commingled investment pools		
State Board of Investment		78,952,920
Mutual funds		13,133,001
Total Investments		\$ 101,642,255

5. 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. For several years, employer and employee contributions had not been required for the accumulation of assets to pay benefits as the pension plan had been fully funded. Statutory contributions from the City of Bloomington and the State of Minnesota were the only funding sources in 2004. The

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

5. Contributions (Continued)

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 deficiency. Minnesota statutes require full funding of the Association’s unfunded accrued liability by the year 2010.

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date - December 31	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll* (Previous Fiscal Year) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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%)
2002	78,447,409	81,361,778	2,914,369	96.42%	9,172,896	31.77%
2003	91,904,999	83,388,410	(8,516,589)	110.21%	8,792,640	(96.86%)
2004	101,341,890	88,034,799	(13,307,091)	115.12%	8,517,612	(156.23%)

*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**

Fiscal Year	Annual Required Contributions	City Contributions	City Percentage Contributed	State Contribution	State Percentage Contributed
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%)
2002	1,235,197	NA	NA	411,764	33.34%
2003	3,436,167	742,343	21.60%	495,967	14.43%
2004	2,046,927	2,986,280	145.89%	625,566	30.56%

Note:

The annual required contributions are actuarially determined. The City, if necessary, 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, 2004

Actuarial Methods and Assumptions

The actuarial accrued liability is determined as part of an annual actuarial valuation on January 1, 2005. Significant methods are as follows:

- The most recent actuarial valuation date is January 1, 2005.
- Actuarial cost is determined using the Entry Age Normal Cost Method expressed as a level percentage of earnings.
- The actuarial value of assets is market value.
- The unfunded accrued liability is amortized as a level dollar amount to December 31, 2010.
- The remaining amortization period is six years using the closed amortization approach.

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.
- The inflation rate assumption is built in to other rate assumptions.
- 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:

- In 2003, the City of Bloomington was required to make additional contributions to the Fund due to a funded ratio which fell below 100 percent for 2002. These are the first city contributions needed since 1997. Remaining sources of funding from the State of Minnesota statutory contributions are projected to provide sufficient funds to meet emerging benefit liabilities.
- In 2004, the City of Bloomington made further contributions to the Fund due to a funded ratio of less than 100 percent in 2002. This is the second city contribution needed since 1997.

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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON 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, 2004, and have issued our report thereon dated February 21, 2005.

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.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains three 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 Bloomington Fire Department Relief Association complied with the material terms and conditions of applicable legal provisions except as described below.

ITEM ARISING THIS YEAR

04-1 Economic Interest Statements

Minn. Stat. § 356A.06, subd. 4, requires that all members of the governing board of a covered pension plan and the chief administrative officer of the plan shall file with the plan a statement of economic interest. The Association Board and officers did not file these required statements during the current audit year.

We recommend that the Association file these statements as required by Minnesota law.

Client's Response:

We agree with your recommendation that the Bloomington Fire Relief Association files these statements as required by Minnesota law, and we will make every effort to comply in the future.

This report is intended solely for the information and 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.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: February 21, 2005