



## Pension Division Newsletter

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### *Working Group Legislation*

A copy of the 2011 Working Group legislation is available on the Office of the State Auditor's website at [http://www.auditor.state.mn.us/Other/reliefWorkingGroup/2011\\_Bill/bill\\_text.pdf](http://www.auditor.state.mn.us/Other/reliefWorkingGroup/2011_Bill/bill_text.pdf). We will keep you updated on the progress of the bill as it makes its way through the legislative process. If you have any questions regarding the Working Group or its legislative proposals, please contact Rose Hennessy Allen at (651) 296-5985 or at [Rose.Hennessy-Allen@state.mn.us](mailto:Rose.Hennessy-Allen@state.mn.us).

### *Municipal Contributions – Fact vs. Fiction*

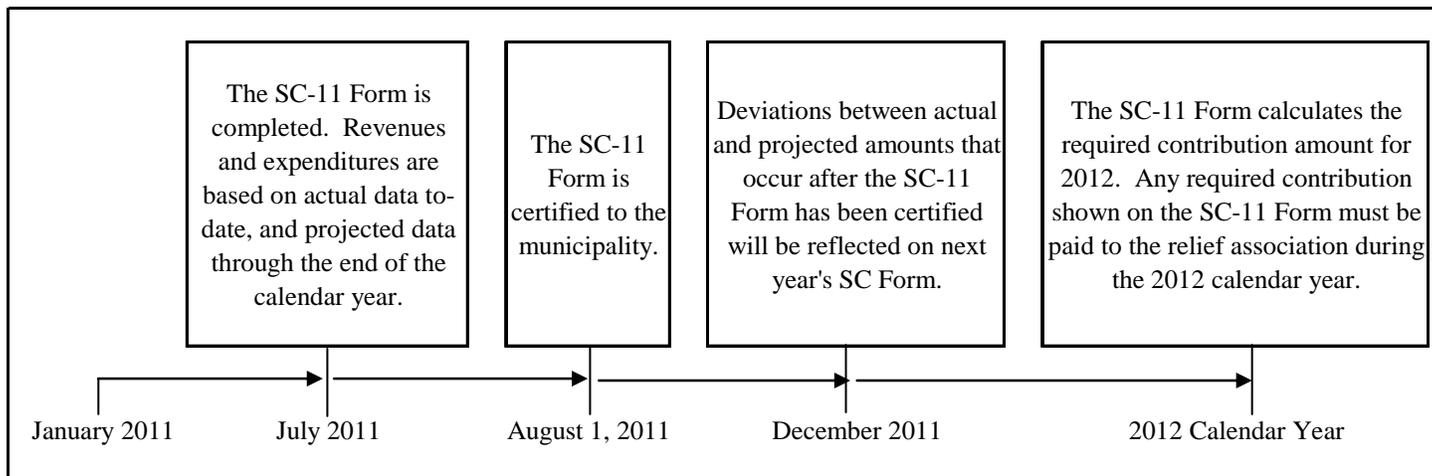
The Office of the State Auditor regularly receives questions about municipal contributions and when they must be paid to a relief association. For lump-sum plans, municipal contribution requirements are calculated each year using the Schedule Form. Relief associations are to complete the Schedule Form during the month of July, and must certify the Form to the affiliated municipality by August 1. If the relief association is affiliated with an independent nonprofit firefighting corporation rather than a city or town fire department, the Form should be certified to the independent board. Obtaining the signature of the appropriate municipal or independent board official on the last page of the Schedule Form satisfies the certification requirement, although some municipalities also request that the Form be presented to the city council or town board.

Because the Schedule Form is required to be completed in July, and to be certified by August 1, revenue and expenditure amounts for the year must be projections made based on the available mid-year information. In July, relief associations should determine their investment returns to-date, as well as revenues received and expenses paid. Based on this actual experience, the relief association should project investment, revenue, and expense amounts that seem reasonable for the remaining portion of the year. Many relief associations work with their investment advisors, brokers, and auditors when making these projections.

Revenue and expenditure amounts that are projected on the Schedule Form will almost always differ from the final year-end amounts. The Schedule Form is intended to provide estimates of a relief association's assets and liabilities, and to calculate contribution requirements based on those estimates. The Schedule Form is completed annually, so any deviations between projected amounts and the actual year-end amounts will be reflected on the next year's Form.

Relief associations should not make changes to the projections after the Schedule Form has been certified.

The following chart shows when the 2011 Schedule Form (SC-11) is to be completed and certified, and when any required contributions must be paid.



Answers to some frequently asked questions are provided below.

**Q:** Our Schedule Form shows that a municipal contribution is required. When must the contribution be paid to our relief association?

**A:** The Schedule Form calculates required contribution amounts that must be paid during the upcoming calendar year. For example, the 2011 Schedule Form calculates the required contribution amount for 2012. The contribution must be paid in full during the 2012 calendar year.

**Q:** What happens if the municipality doesn't pay the required contribution amount?

**A:** If the benefit level that your relief association is operating at was properly established and approved by your affiliated municipality, the municipality is required under state law to make any contributions that become due at that benefit level. If the municipality does not include the full required contribution amount in its levy for any year, the officers of your relief association must certify the unpaid amount to the county auditor, who will spread a levy for that amount on the taxable property of the municipality.

**Q:** I've heard that deficits are amortized over a ten-year period. What does that mean?

**A:** If your relief association has a deficit, at least ten percent of that deficit is retired each year. The amount retired, or amortized, is included as a charge when the required municipal contribution is calculated. The deficit amortization payment is only one component in the formula used to calculate municipal contribution requirements. While deficits are amortized over a ten-year period, any required municipal contributions that are calculated must be paid in full during the calendar year for which they are due.

**Q:** I have heard that there has been some discussion about changing the deficit amortization period to a longer period of time. Would a longer amortization period be appropriate?

**A:** The Volunteer Fire Relief Association Working Group discussed proposals to extend the period of time over which deficits are amortized, but decided not to pursue any legislative changes. Sufficient assets are needed at the time of a member's retirement because lump-sum plans pay the entire benefit as a single lump-sum payment. By contrast, relief associations that pay monthly benefits have a longer period of time over which the payments are being made, so they don't need assets to cover the entire benefit amount when the member retires. In addition, the population of relief association members has aged. A significant percentage of members are at or near retirement age, so relief associations could see an increase in the number and frequency of retirements, and required benefit payments. Finally, extending the deficit amortization period would decrease the amount that municipalities would be required to contribute each year, but would prolong the number of years for which contributions would be required. When relief associations receive smaller contributions they have less money to invest, and they may miss opportunities for investment gains.

**Q:** Our relief association projected on the Schedule Form that we would earn \$10,000 on our investments for the year. At the end of the year we found that we actually earned \$15,000 on our investments. Can we change the amount we projected on the Form to reflect the higher earnings?

**A:** No. The Schedule Form is required to be completed during July and be certified to the municipality or independent nonprofit firefighting corporation by August 1. After it's been certified, the Form should not be revised to update revenue or expenditure amounts that deviated from the projected amounts. Any deviations between forecasted and actual revenues and expenditures will be reflected on the next year's Schedule Form.

Two documents that provide additional information about municipal contributions are available on the Office of the State Auditor's website. The first document is a Statement of Position on this topic, which can be viewed at:

[http://www.auditor.state.mn.us/other/Statements/requiredmunicipalcontributions\\_0901.pdf](http://www.auditor.state.mn.us/other/Statements/requiredmunicipalcontributions_0901.pdf).

The second is an article, which includes examples of how required municipal contributions are calculated, which can be viewed at:

<http://www.auditor.state.mn.us/other/columns/MunicipalContributionstoFireReliefsforLMC090311.pdf>.

### ***Audit Requirements***

Relief associations with assets or liabilities of at least \$200,000 must annually submit audited financial statements. Trustees of relief associations that have the audit requirement should confer with their auditor to ensure that the association's 2010 audit report complies with the Governmental Accounting Standards Board's Statement Number 34 (GASB 34). GASB 34 requires that a Management's Discussion and Analysis (MD&A) be included in a relief association's audited financial report. If the MD&A is not included in the audited financial report, the omission should be noted in the Independent Auditor's Report. In addition, to meet the requirements of GASB 34, there are three options for presenting the General Fund: 1) consolidate the General Fund with the Special Fund depending upon its materiality; 2) show the General Fund separately with the adjustments from modified to full accrual basis financial statements; or 3) separately show the General Fund as a fiduciary fund in the same manner as the Special Fund.

### ***Online Training Opportunities***

The Office of the State Auditor recorded five online training sessions to assist with the completion of Pension reporting forms. The online training sessions provide instructions on Calculating Deferred Interest, Completing the Maximum Benefit Worksheet, Completing the Schedule Form, Completing the Reporting Form, and the SAFES Electronic Signature Process. The sessions are designed for new relief association trustees but provide examples and information that will be useful for experienced trustees as well. The online training sessions can be viewed by visiting the “Training Opportunities” page of the Office of the State Auditor’s website, or by clicking on the links provided below.

When you click on one of the links below, you will be brought to a webpage that requests your e-mail address. Once you've entered your address and name, a Windows Media Player screen will open with the webinar ready to play. Notices will be provided in future Pension Newsletters as additional online training sessions become available.

SAFES Electronic Signature Process (approximately 8 minutes)

<https://www2.gotomeeting.com/register/559962235>

Completing the Reporting Form (approximately 25 minutes)

<https://www2.gotomeeting.com/register/452207395>

Completing the Maximum Benefit Worksheet (approximately 6 minutes)

<https://www2.gotomeeting.com/register/340583466>

Completing the Schedule Form (approximately 20 minutes)

<https://www2.gotomeeting.com/register/870463146>

Deferred Interest: Options and Calculations (approximately 18 minutes)

<https://www2.gotomeeting.com/register/726119866>

### ***Meet Your Pension Analyst!***

Several fire service organizations coordinate an annual Fire Service Day at the State Capitol. This year’s Fire Service Day is scheduled for Thursday, March 10. Volunteer firefighters who are attending the conference and visiting the State Capitol are encouraged to stop by our office to meet their pension analyst and the Pension Division team.

Our office is located one block north of the capitol, at 525 Park Street, on the fifth floor (see [www.osa.state.mn.us/default.aspx?page=directions](http://www.osa.state.mn.us/default.aspx?page=directions)). Information regarding Fire Service Day is provided on the Minnesota State Fire Chiefs Association website at <http://www.msfc.org/>.

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*If you have questions please contact us:*

**Aaron Dahl, Pension Analyst**  
(651) 297-2765 [Aaron.Dahl@state.mn.us](mailto:Aaron.Dahl@state.mn.us)

**Michael Johnson, Pension Analyst**  
(651) 282-5430 [Michael.A.Johnson@state.mn.us](mailto:Michael.A.Johnson@state.mn.us)

**Jim Jensen, Student Intern**  
(651) 284-3423 [Jim.Jensen@state.mn.us](mailto:Jim.Jensen@state.mn.us)

**Gail Richie, Office & Administrative Specialist**  
(651) 282-6110 [Gail.Richie@state.mn.us](mailto:Gail.Richie@state.mn.us)

**Rose Hennessy Allen, Pension Director**  
(651) 296-5985 [Rose.Hennessy-Allen@state.mn.us](mailto:Rose.Hennessy-Allen@state.mn.us)