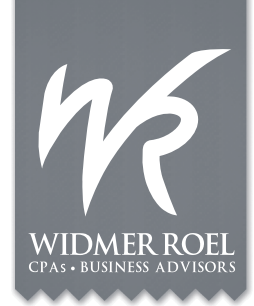


**FARGO FIREFIGHTER'S PENSION
ASSOCIATION**

**FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

WITH INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Fargo Firefighter's Pension Association
Fargo, North Dakota

Opinions

We have audited the accompanying financial statements of the **Fargo Firefighter's Pension Association**, which comprise the statements of fiduciary net position as of December 31, 2021 and 2020 and the related statements of changes in fiduciary net position for the years then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Fargo Firefighter's Pension Association** as of December 31, 2021 and 2020, and the changes in net position restricted for pension benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the independent of **Fargo Firefighter's Pension Association** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the **Fargo Firefighter's Pension Association's** ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **Fargo Firefighter's Pension Association's** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **Fargo Firefighter's Pension Association's** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules of Changes in the Employer's Net Pension Liability and Related Ratios, Funding Progress, Employer Contributions, and, Investment Returns on pages 18-21 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 audits of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Fargo Firefighter's Pension Association's** basic financial statements. The schedules of investments are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of investments are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of investments are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2023, on our consideration of **Fargo Firefighter's Pension Association's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Fargo Firefighter's Pension Association's** internal control over financial reporting and compliance.

A handwritten signature in dark ink, appearing to read "William Rouse".

Fargo, North Dakota
October 12, 2023

FARGO FIREFIGHTER'S PENSION ASSOCIATION**STATEMENTS OF FIDUCIARY NET POSITION****DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 823,416	\$ 2,010,133
Investments, at fair value		
Mutual funds	48,636,061	43,104,667
Receivables	53,175	171,464
Prepaid expenses	<u>7,572</u>	<u>-</u>
Total assets	<u>49,520,224</u>	<u>45,286,264</u>
LIABILITIES		
Accrued payroll liabilities	<u>24,241</u>	<u>22,242</u>
Net position restricted for pensions	\$ <u><u>49,495,983</u></u>	\$ <u><u>45,264,022</u></u>

FARGO FIREFIGHTER'S PENSION ASSOCIATION
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ADDITIONS		
Contributions		
City	\$ 2,467,028	\$ 2,625,101
Employees	<u>922,596</u>	<u>949,538</u>
Total contributions	<u>3,389,624</u>	<u>3,574,639</u>
Investment income		
Net appreciation in fair value of investments	3,914,203	6,354,214
Dividends and interest	<u>49</u>	<u>149</u>
Total investment income	3,914,252	6,354,363
Investment management fees	<u>(185,321)</u>	<u>(146,157)</u>
Net investment income	<u>3,728,931</u>	<u>6,208,206</u>
Total additions	<u>7,118,555</u>	<u>9,782,845</u>
DEDUCTIONS		
Benefit payments	2,840,147	2,690,035
Administration expenses	<u>46,447</u>	<u>55,492</u>
Total deductions	<u>2,886,594</u>	<u>2,745,527</u>
NET INCREASE IN NET POSITION	4,231,961	7,037,318
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year	<u>45,264,022</u>	<u>38,226,704</u>
End of year	\$ <u><u>49,495,983</u></u>	\$ <u><u>45,264,022</u></u>

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

NOTE 1 – DESCRIPTION OF THE PLAN

The Fargo Firefighter's Pension Association Plan ("Plan") is governed by Section 18-11 of the North Dakota Century Code. The following description of the Plan is provided for general information purposes only. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a single-employer defined benefit pension plan covering substantially all members of the Fargo Firefighter's Pension Association ("Association").

Membership

Membership in the Association is generally limited to active employees of the Fargo Fire Department who are engaged in the hazards of firefighting. Members must be current on payment of dues and assessments to the Association and otherwise meet requirements under the Constitution and By-Laws.

Contributions

Contributions to the Association are authorized by section 18-11-12 of the North Dakota Century Code. Contribution rates are determined by two-thirds of the Association's membership and approved by the City of Fargo ("City"), as described in the Association's by-laws.

Service Pension Benefits

The Board of Trustees of the Fargo Firefighters Pension Association sets benefits for the Plan, and can amend the bylaws of the Association. Effective May 1, 1998, the benefit formula was improved to provide 2.33% of average final compensation times years of service. Before August 1, 2001, benefits were as follows:

<u>Service</u>	<u>Percent of First Class Firefighter's Salary on January 1 of Year of Retirement</u>
20	46.60%
21	48.93%
22	51.26%
23	53.59%
24	55.92%
25	58.25%
26	60.58%
27	62.91%
28	65.24%
29	67.57%
30 & Over	70.00%

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

Effective August 1, 2001, the benefit formula was improved to provide 2.50% of average final compensation times years of service. Under the new formula, benefits are as follows:

<u>Service</u>	<u>Percent of Final Salary</u>
20	50.00%
21	52.50%
22	55.00%
23	57.50%
24	60.00%
25	62.50%
26	65.00%
27	67.50%
28	70.00%
29	72.50%
30 & Over	75.00%

The normal form of monthly benefit for a member at the rank of firefighter married at retirement is the monthly salary of a top paid firefighter as of January 1 multiplied by the applicable percentage from the tables above. For any member above the rank of firefighter, the normal form of monthly benefit is the average of the final five years' monthly salary multiplied by the applicable percentage from the tables above. Upon death of the member, the surviving spouse is eligible for 50% of this benefit.

Members may choose the following optional forms of benefit payment in lieu of the normal benefit:

Life annuity – a monthly benefit payable only for member's lifetime, with no survivor benefit. This benefit amount is equal to the normal benefit payment multiplied by 1.043.

Certain and life annuity – a monthly benefit payable for the member's lifetime, with a minimum of 120 payments guaranteed. The benefit amount is equal to the normal benefit payment multiplied by 1.03.

Joint and survivor annuity – a monthly benefit payable for the member's lifetime, plus payments equal to 75% or 100% of the benefit amount to the member's spouse following the member's death. The benefit amount is the normal benefit payment multiplied by 0.98 for the joint and 75% survivor option and .96 for the joint and 100% survivor option, if the member and spouse are the same age. If there is an age difference between the member and spouse, the multiplier is adjusted accordingly.

If employees terminate before rendering 10 years of services, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the City's contributions. The benefit will be limited to a refund of employee contributions without interest.

Disability Benefits

Active employees who become disabled, prior to their normal retirement age, shall receive a monthly disability pension equal to 10% times the member's number of credited service, up to a maximum of 50% of the monthly salary of a first-class firefighter for the year that the first benefit is paid, unless such member is eligible for a larger service pension. In this case, the member shall draw a monthly amount equal to the service pension. There is no age or service requirement for qualifying for a disability pension. If, in any year, a disabled pensioner's disability payments, earned income, and/or other disability insurance payments exceed a first-class firefighter's annual salary, the disability pension will be reduced one dollar for each excess dollar earned.

(Continued)

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

Surviving Spouse and Children Benefits

Monthly pensions shall be allowed when a service pensioner, disability pensioner, deferred pensioner, or an active vested member of the pension Association dies, leaving a surviving spouse to whom he was married while an active member; or children who are living while, or born within nine months after, the deceased was on the payroll, or both such surviving spouse and children.

Amount of such pensions:

Surviving spouse of retirees; the normal benefit is 50% of benefit level earned by years of service computation by retiree. The benefit percentage may be higher or lower if the member chooses one of the optional forms of benefit payment.

Surviving spouse of vested active or vested deferred employees; greater of 50% of earned pension benefit or 25% of adjusted first-class firefighters' salary at the time of employee's death.

One or more children under age 18 of vested active or vested deferred member with surviving parent; 20% of adjusted first-class firefighters' salary at the time of death. This is in addition to the amount payable to the surviving spouse.

One child with no surviving parent; 40% of adjusted first-class firefighters' salary at the time of death. If there is more than one child with no surviving parent, the percentage is 60%.

Beneficiaries of nonvested active members, in addition to the funeral payment, also receive a return of the member's contributions, without interest.

Funeral Payment

A single sum payment that is equal to the unadjusted monthly first-class firefighters' salary at the time of the member's death. As of December 31, 2021, the first-class firefighter's monthly salary was \$6,341.

Deferred Pension

Members who terminate with 10 or more years of service are entitled to receive their service retirement benefit, commencing at age 55 or later.

Termination Benefit

Members terminating employment prior to completing 10 years of service are eligible to a refund of the member's contributions to the Association, without interest.

Decrease in Benefits if Funds not Sufficient

If, at any time, the Association actuary certifies that the balance of the Association fund, together with future contributions by active members and contributions by the City of Fargo, will be inadequate to provide future prescribed benefits for active and inactive members and their beneficiaries, the benefits provided for shall be proportionately decreased, but in no case shall the benefits be decreased more than two percent (2%) in any one year, or more than twenty percent (20%) in total. When the balance of the Association fund is again sufficient to provide future prescribed benefits, then the benefits shall again be paid as prescribed.

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

Plan Amendments

The Plan may be amended at any regular meeting or special meeting called for that purpose by a (2/3) vote of the members present. At least 30 days' notice must be given of any proposed amendment.

Plan Termination

If the Plan is terminated, the accrued benefits of each member shall immediately become 100% vested and nonforfeitable to the extent funded.

Current Membership

Membership of the plan consisted of the following at December 31, 2021, the date of the latest actuarial valuation:

Retired and disabled members currently receiving benefits	65
Beneficiaries currently receiving benefits	24
Terminated plan members entitled to but not yet receiving benefits	8
Active plan members	<u>119</u>
Total	<u><u>216</u></u>

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association uses the accrual method for financial reporting purposes.

Reporting Entity

The Association is a defined benefit retirement plan for the Fargo, North Dakota Fire Department. These financial statements include only the assets, liabilities, revenues, and expenses of the Association.

Valuation of Investments

Investments in mutual funds are valued at fair value, which is based on quoted market prices. Market values have been supplied by Raymond James, the Plan's agent, at December 31, 2021 and 2020.

Cash and Cash Equivalents

The Association considers all short-term investments with original maturities of three months or less to be cash equivalents. From time to time, the Association has assets on deposit in financial institutions in excess of federally insured limits.

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Actuarial Valuation and Analysis of Accumulated Plan Benefits

An actuarial valuation and analysis of accumulated plan benefits at December 31, 2021 was performed by Van Iwaarden Associates, independent consulting actuaries.

The assumptions used in this Actuarial Valuation are as follows:

Annual investment returns, net of investment expenses were assumed to be 6.75% per annum. The discount rate used is also 6.75%.

The actuarial value of assets was changed in January 1, 2012 to the market value of assets less contributions receivable. Previously the actuarial value of assets was the prior year's actuarial value of assets plus smoothed gains/losses for the previous five years.

Annual rates of death, disability, terminations, and service retirement can be found in the actuarial valuation report.

Salaries are assumed to increase 3.00% and 4.50% per annum, for first class firefighters and officers, respectively. Inflation is assumed to be 2.50% per annum.

Normal retirement is assumed to occur from age 55 to age 65 with higher concentrations assumed at ages 55, 60, 62, 63, 64 and 65. A complete table of the assumed retirement rates can be found in the actuarial valuation report.

No increase over the social security contribution rate of 7.9% was assumed.

Subsequent Events

The Association has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued. The Association believes that there have been no subsequent events where disclosures are required.

NOTE 3 – FUNDING POLICY

As a condition of participation, employees are required to pay monthly to the Association an amount at least equal to a sum of $\frac{1}{4}$ of 1% greater than the current employee contribution rate for social security and Medicare. Depending on the member's hire date, the City of Fargo contributes 14.20% or 15.91% of total fire department payroll. Employees contribute 10.40% of salary. The employees' contributions totaled \$922,596 and \$949,538 for the years ended December 31, 2021 and 2020, respectively. The City of Fargo contributions totaled \$2,467,028 and \$2,625,101 for the years ended December 31, 2021 and 2020, respectively. Administrative costs are financed through investment earnings.

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

NOTE 4 – DEPOSITS

Custodial credit risk is the risk that, in the event of a financial institution failure, the Association's cash deposits may not be returned to it. The Association's policies do not specifically address custodial credit risk. As of December 31, 2021 and 2020, the Association had deposits totaling \$823,416 and \$2,010,133, respectively. At December 31, 2021, \$411,164 in deposits were not covered by federal depository insurance. At December 31, 2020, \$1,510,133 in deposits were not covered by federal depository insurance.

NOTE 5 – INVESTMENTS

Investment Policy

The investment policy of the Fargo Firefighter's Pension Association is governed by Section 18-11-13 of the North Dakota Century Code as well as the Association's investment policy. The Board of Trustees of the Association is responsible for establishing the investment policy for Plan assets, which includes setting investment goals and specifying the percentage of assets to be invested in various types of investments. The Association is authorized to invest in bonds of the United States of America, the state of North Dakota or any other state, certificates of indebtedness of the State of North Dakota, any general obligation bonds or certificates of indebtedness of any political subdivision of the State of North Dakota, or the Bank of North Dakota or any other bank or savings and loan association which is insured by the United States of America. The Association may also invest in other investments by selecting a funding agent or agents. The following is the asset allocation ranges the Association has authorized in its investment policy:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities	25%	75%	60%
Fixed Income	25%	75%	30%
Alternative investments	0%	40%	10%
Cash and cash equivalents	0%	100%	0%

The Association has a contract with Raymond James who must follow the investment requirements outlined in the Association's investment policy.

Investments for the Association consist of mutual funds reported at fair market value. Investments consist of the following at December 31:

<u>Investment Type</u>	<u>Fair Market Value</u>	
	<u>2021</u>	<u>2020</u>
Mutual funds/exchange-traded products - equities	\$ 32,297,740	\$ 28,206,533
Mutual funds - bonds	<u>16,338,321</u>	<u>14,898,134</u>
	<u>\$ 48,636,061</u>	<u>\$ 43,104,667</u>

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

Rate of Return

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested. The annual money-weighted rate of return on Plan investments, net of Plan investment expenses, is as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Annual Money-Weighted Rate of Return, Net of Investment Expenses	8.22%	16.24%

Sensitivity of Net Pension Liability

The following presents the net pension liability of the Plan as of December 31, 2021, calculated using a discount rate of 7.00%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is a 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
1% decrease in discount rate (6.00%)	72,873,744	49,495,983	23,377,761
Current discount rate (7.00%)	64,109,518	49,495,983	14,613,535
1% increase in discount rate (8.00%)	56,862,289	49,495,983	7,366,306

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The market value of bond mutual funds typically moves in the opposite direction of the change in interest rates. The Association does not have a formal investment policy to address interest rate risk.

At December 31, 2021 and 2020, maturities of the Association's bonds were as follows:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>11-15 years</u>
Mutual funds - bonds - 2021	\$ <u>16,338,321</u>	\$ <u>9,409,112</u>	\$ <u>6,929,209</u>	\$ <u>-</u>
Mutual funds - bonds - 2020	\$ <u>14,898,134</u>	\$ <u>-</u>	\$ <u>14,898,134</u>	\$ <u>-</u>

The bond mutual funds' weighted average maturities were 5.38 years and 7.68 years on December 31, 2021 and 2020, respectively.

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association does not have a formal policy to limit exposure to credit risk. The Association's investments in bond mutual funds had the following average credit ratings by Standard and Poor's at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
AAA	\$ 6,929,209	\$ 14,898,134
Not rated*	<u>9,409,112</u>	<u>-</u>
	<u>\$ 16,338,321</u>	<u>\$ 14,898,134</u>

*The current ratings of this fund's underlying investments are not disclosed by the fund company.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Association's investment in a single issuer (mutual funds and pooled investment funds are exempt). The Association's investment policy states that no more than 5% of the Association's assets may be invested in securities of any one company, and no more than 20% of the Association's investments may be concentrated in any one industry. At December 31, 2021 and 2020, the Association's investment portfolio was not exposed to concentration of credit risk.

NOTE 6 – FAIR VALUE MEASUREMENTS

Professional accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under professional standards are described below:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds/exchange-traded products: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2021:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds/exchange traded products				
Large cap growth	\$ 2,424,973	\$ 2,424,973	\$ -	\$ -
Large cap blend	14,284,466	14,284,466	-	-
Large cap value	5,857,173	5,857,173	-	-
Intermediate term bonds	2,491,067	2,491,067	-	-
Mid cap growth	2,139,760	2,139,760		
Small cap growth	3,433,420	3,433,420	-	-
Multisector bond	6,929,209	6,929,209	-	-
World stock	4,157,949	4,157,949	-	-
Other	<u>6,918,044</u>	<u>6,918,044</u>	<u>-</u>	<u>-</u>
Total assets at fair value	\$ <u>48,636,061</u>	\$ <u>48,636,061</u>	\$ <u>-</u>	\$ <u>-</u>

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2020:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds/exchange traded products				
Large cap growth	\$ 11,106,106	\$ 11,106,106	\$ -	\$ -
Large cap blend	4,716,218	4,716,218	-	-
Large cap value	4,450,105	4,450,105	-	-
Intermediate term bonds	14,898,132	14,898,132	-	-
Mid cap growth	2,137,108	2,137,108		
Small cap growth	1,832,385	1,832,385		
World stock	<u>3,964,613</u>	<u>3,964,613</u>	<u>-</u>	<u>-</u>
Total assets at fair value	\$ <u>43,104,667</u>	\$ <u>43,104,667</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE 7 – TAX STATUS

The Association is exempt from taxation under Internal Revenue Code Section 501(c)(4).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability (or asset) if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken by the Association, and has concluded that as of December 31, 2021 and 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. With few exceptions, the Association is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2018.

NOTE 8 – RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of fiduciary net position.

NOTE 9 – CONCENTRATIONS

The Association holds investment securities at the brokerage firm of Raymond James. These funds are covered by the Securities Investor Protection Corporation ("SIPC"). When a brokerage firm is closed due to bankruptcy or other financial difficulties, the SIPC will attempt to within certain limits to return customers cash, stock and other securities. Market loss is not covered by the SIPC.

NOTE 10 – RELATED PARTIES

The members of the Board of Trustees are also members of the Association and are participants in the Plan. The City of Fargo maintains the Fargo Firefighters Pension Plan and handles all employer contributions along with benefit payments to all members and beneficiaries.

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

NOTE 11 – NET PENSION LIABILITY OF THE PLAN

The funded status of the Association as of December 31, 2021, the date of the most recent actuarial valuation, is as follows:

	<u>2021</u>	<u>2020</u>
Total pension liability	\$ 64,109,518	57,981,291
Plan fiduciary net position	<u>49,495,983</u>	<u>45,264,022</u>
Net pension liability	\$ <u>14,613,535</u>	<u>12,717,269</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77.21%</u>	<u>78.07%</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions included as required supplementary information presents trend information about the amounts contributed to the Association by the employer in comparison to the Annual Required Contribution (“ARC”), an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over an 8-year amortization period for the initial unfunded actuarial accrued liability and 5 years for future gains and losses. The amortization period was changed to the 8- and 5-year amortization periods for the December 31, 2015 valuation.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation includes:

Valuation Date	December 31, 2021
Actuarial Cost Method	Entry Age Normal
Amortization Method	Straight-line amortization over a closed 5-year period.
Remaining Amortization Period	5 Years
Actuarial Value of Assets	Market value of assets

FARGO FIREFIGHTER'S PENSION ASSOCIATION

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS DECEMBER 31, 2021 AND 2020

Actuarial Assumptions

Discount Rate	7.00% compounded annually, net of expense
Investment Rate of Return	7.00% compounded annually, net of expense
Projected Salary Increases	3.00% (First class firefighter) and 4.50% (Officer)
Inflation Rate	2.50%
Mortality	PubS-2010 Safety mortality tables with generational projection using scale MP-2021.

The following change was made in the actuarial methods and assumptions since the previous valuation dated December 31, 2021:

- The inflation rate was updated from 2.75% to 2.50% to properly reflect inflation rates in 2019.

**FARGO FIREFIGHTER'S PENSION
ASSOCIATION**

**REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021 AND 2020**

FARGO FIREFIGHTER'S PENSION ASSOCIATION
SCHEDULES OF CHANGES IN THE EMPLOYER'S NET POSITION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31

	<u>2021</u>	<u>2020</u>	<u>2019</u>
TOTAL PENSION LIABILITY			
Service cost	\$ 1,351,503	\$ 1,226,111	\$ 1,153,327
Interest	4,198,672	3,911,808	3,713,542
Differences between expected and actual experience	1,402,629	-	457,524
Changes of assumptions and methods	2,015,570	1,458,532	-
Benefit payments, including refunds of member contributions	<u>(2,840,147)</u>	<u>(2,690,035)</u>	<u>(2,634,931)</u>
Net change in total pension liability	6,128,227	3,906,416	2,689,462
TOTAL PENSION LIABILITY, BEGINNING OF YEAR	<u>57,981,291</u>	<u>54,074,875</u>	<u>51,385,413</u>
TOTAL PENSION LIABILITY, END OF YEAR	\$ <u><u>64,109,518</u></u>	\$ <u><u>57,981,291</u></u>	\$ <u><u>54,074,875</u></u>
PLAN FIDUCIARY NET POSITION			
Contributions - city	\$ 2,467,028	\$ 2,625,101	\$ 2,465,168
Contributions - employees	922,596	949,538	860,908
Net investment income	3,728,931	6,208,206	6,921,391
Benefit payments, including refunds of member contributions	(2,840,147)	(2,690,035)	(2,634,931)
Administration expenses	<u>(46,447)</u>	<u>(55,492)</u>	<u>(49,233)</u>
Net change in plan fiduciary net position	4,231,961	7,037,318	7,563,303
PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR	<u>45,264,022</u>	<u>38,226,704</u>	<u>30,663,400</u>
PLAN FIDUCIARY NET POSITION, END OF YEAR	\$ <u><u>49,495,983</u></u>	\$ <u><u>45,264,022</u></u>	\$ <u><u>38,226,703</u></u>
EMPLOYER'S NET PENSION LIABILITY	\$ <u><u>14,613,535</u></u>	\$ <u><u>12,717,269</u></u>	\$ <u><u>15,848,172</u></u>
Plan fiduciary net position as a percentage of the total pension liability	77.21%	78.07%	70.69%
Covered - employee payroll	\$ 8,869,450	\$ 8,658,216	\$ 8,118,061
Employer's net pension liability as a percentage of covered-employee payroll	164.76%	146.88%	195.22%

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 1,139,344	\$ 1,065,668	\$ 1,033,817	\$ 942,970	\$ 882,740
3,552,233	3,285,670	3,107,060	3,020,513	2,656,719
244,951	2,074,434	1,380,692	164,724	(114,152)
(46,847)	(133,772)	(537,815)	783,502	3,642,866
<u>(2,722,482)</u>	<u>(2,655,413)</u>	<u>(2,448,614)</u>	<u>(2,391,530)</u>	<u>(2,164,096)</u>
2,167,199	3,636,587	2,535,140	2,520,179	4,904,077
<u>49,218,214</u>	<u>45,581,627</u>	<u>43,046,487</u>	<u>40,526,308</u>	<u>35,622,231</u>
<u>\$ 51,385,413</u>	<u>\$ 49,218,214</u>	<u>\$ 45,581,627</u>	<u>\$ 43,046,487</u>	<u>\$ 40,526,308</u>
\$ 2,486,861	\$ 2,139,154	\$ 1,916,012	\$ 1,889,722	\$ 1,661,219
825,550	779,473	769,779	744,739	723,023
(1,646,760)	4,665,106	1,711,824	(43,277)	1,406,050
(2,722,482)	(2,655,413)	(2,448,614)	(2,391,023)	(2,164,096)
<u>(60,285)</u>	<u>(60,855)</u>	<u>(45,801)</u>	<u>(52,707)</u>	<u>(64,290)</u>
(1,117,116)	4,867,465	1,903,200	147,454	1,561,906
<u>31,780,516</u>	<u>26,913,051</u>	<u>25,009,851</u>	<u>24,862,397</u>	<u>23,300,491</u>
<u>\$ 30,663,400</u>	<u>\$ 31,780,516</u>	<u>\$ 26,913,051</u>	<u>\$ 25,009,851</u>	<u>\$ 24,862,397</u>
<u>\$ 20,722,013</u>	<u>\$ 17,437,698</u>	<u>\$ 18,668,576</u>	<u>\$ 18,036,636</u>	<u>\$ 15,663,911</u>
59.67%	64.57%	59.04%	58.10%	61.35%
\$ 7,966,082	\$ 7,487,808	\$ 7,362,577	\$ 7,129,995	\$ 6,813,000
260.13%	232.88%	253.56%	252.97%	229.91%

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as are available.

FARGO FIREFIGHTER'S PENSION ASSOCIATION

SCHEDULES OF FUNDING PROGRESS FOR THE LAST TEN FISCAL YEARS

Actuarial Valuation Date	Plan Fiduciary Net Position	Total Pension Liability	Employer's Net Pension Liability	Funded Ratio	Covered Payroll	Employers Net Pension Liability As A Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
1/1/2010	19,639,494	28,865,604	9,226,110	68.0%	6,016,656	153.3%
1/1/2012	16,697,278	32,824,700	16,127,422	50.9%	6,182,954	260.8%
1/1/2014	23,300,491	35,622,231	12,321,740	65.4%	6,813,000	180.9%
12/31/2015	25,029,890	43,046,487	18,016,597	58.1%	7,129,995	252.7%
12/31/2016	26,913,051	45,581,627	18,668,576	59.0%	7,362,577	253.6%
12/31/2017	31,780,515	49,218,214	17,437,699	64.6%	7,487,808	232.9%
12/31/2018	30,663,400	51,385,413	20,722,013	59.7%	7,966,082	260.1%
12/31/2019	38,226,703	54,074,875	15,848,172	70.7%	8,118,061	195.2%
12/31/2020	45,264,022	57,981,291	12,717,269	78.07%	8,658,216	146.9%
12/31/2021	49,495,982	64,109,518	14,613,536	77.21%	8,869,450	164.8%

FARGO FIREFIGHTER'S PENSION ASSOCIATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2021 AND 2020
LAST TEN FISCAL YEARS

<u>Year Ending</u>	<u>Annual Required Contribution</u>	<u>Contributions</u>	<u>Percentage Contributed</u>
12/31/2012	1,978,776	1,385,143	70%
12/31/2013	1,814,747	1,524,387	84%
12/31/2014	1,542,399	1,661,219	100%
12/31/2015	1,995,062	1,889,722	95%
12/31/2016	2,312,759	1,916,012	83%
12/31/2017	2,466,528	2,139,153	87%
12/31/2018	2,484,690	2,486,861	100%
12/31/2019	2,934,543	2,465,168	84%
12/31/2020	3,004,925	2,625,101	87%
12/31/2021	3,004,925	2,467,028	82%

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation date: 12/31/2021

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age normal in accordance with the requirements of GASB 67/68
Amortization method	Straight-line over a closed 5-year period
Remaining amortization period	5 years
Asset valuation method	Market value of assets
Inflation	2.50%
Salary increases	3.00% annually for first class firefighter pay rate 4.50% annually for officers
Investment rate of return	7.00%
Retirement age	55
Mortality	PubS-2010 Safety mortality tables with generational projection using scale MP-2021.

FARGO FIREFIGHTER'S PENSION ASSOCIATION
SCHEDULES OF INVESTMENT RETURNS
DECEMBER 31

Annual Money-Weighted Rate of Return, Net of Investment Expenses:

2014	6.00%
2015	0.20%
2016	6.80%
2017	17.30%
2018	5.06%
2019	22.31%
2020	16.24%
2021	8.22%

*Complete data for this schedule is not available prior to 2014.

**FARGO FIREFIGHTER'S PENSION
ASSOCIATION**

**SUPPLEMENTARY INFORMATION
DECEMBER 31, 2021 AND 2020**

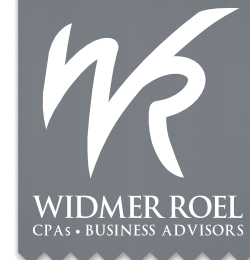
FARGO FIREFIGHTER'S PENSION ASSOCIATION

SCHEDULES OF INVESTMENTS DECEMBER 31, 2021 AND 2020

Security	2021		2020	
	Cost	Fair Market Value	Cost	Fair Market Value
Mutual funds	\$ <u>44,171,175</u>	\$ <u>48,636,061</u>	\$ <u>41,296,773</u>	\$ <u>43,104,667</u>

SUMMARY

2021 Aggregate FMV	\$ 48,636,061
2021 Aggregate cost	<u>44,171,175</u>
Net appreciation	\$ <u>4,464,886</u>
2020 Aggregate FMV	\$ 43,104,667
2020 Aggregate cost	<u>41,296,773</u>
Net appreciation	\$ <u>1,807,894</u>



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Fargo Firefighter's Pension Association
Fargo, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Fargo Firefighter's Pension Association** which comprise as of statements of fiduciary net position as of December 31, 2021 and 2020, and the related statements of changes in fiduciary net position for the years then ended and the related notes to the financial statements and have issued our report thereon dated October 12, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the **Fargo Firefighter's Pension Association** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing opinions on the effectiveness of the **Fargo Firefighter's Pension Association** internal control. Accordingly, we do not express an opinion on the effectiveness of the **Fargo Firefighter's Pension Association** 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2021-001, 2021-002, and 2021-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Fargo Firefighter's Pension Association's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Fargo Firefighter's Pension Association's Response to Findings

Fargo Firefighter's Pension Association's response to the findings identified in our audits is described in the accompanying schedule of findings and responses. **Fargo Firefighter's Pension Association's** response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Fargo, North Dakota
October 12, 2023

FARGO FIREFIGHTER'S PENSION ASSOCIATION
SCHEDULES OF FINDINGS AND RESPONSES
DECEMBER 31, 2021 AND 2020

FINANCIAL STATEMENT FINDINGS

FINDING 2021-001 – SIGNIFICANT DEFICIENCY – LIMITED STAFF SIZE – Noted in Prior Years

Condition

There is a limited number of personnel to help prevent a proper segregation of duties to ensure adequate internal control. One individual is responsible for writing, signing and issuing checks for operating expenses.

Criteria

To ensure adequate internal control over financial reporting and prevent material misstatements due to errors or fraud, there should be a segregation of the functions of approval, custody of assets, posting, and reconciliation.

Effect

The financial statements are susceptible to misstatements due to errors or fraud.

Cause

Due to the size of the Association, management has determined it is not feasible to have sufficient staff to ensure adequate segregation of approval, custody of assets, posting and reconciliation.

Recommendation

We recommend that management be constantly aware of the lack of segregation of duties and implement controls wherever possible to mitigate the associated risks.

Views of Responsible Officials

The Pension Board is currently working with the City of Fargo Human Resources Department and Finance Department to aid with our clerical duties into the future.

FINDING 2021-002 – SIGNIFICANT DEFICIENCY – IMPROPER CONTRIBUTION PAY-OUT

Condition

During testing we noted payments to two nonvested terminated employees in 2021 did not agree with the accumulated contribution reports. The two employees in total were underpaid by \$472.88.

Criteria

Per the plan document section 5 all non-vested terminated employees shall be entitled to a refund of their total accumulated contributions.

Effect

Terminated employees were not being properly paid and expenses are understated.

FARGO FIREFIGHTER'S PENSION ASSOCIATION
SCHEDULES OF FINDINGS AND RESPONSES
DECEMBER 31, 2021 AND 2020

Cause

The City miscalculated the contributions and therefore, paid incorrect amounts.

Recommendation

We recommend management review all payments on a regular basis to ensure accuracy.

Views of Responsible Officials

The Pension Board and Human Resources were made aware of the situation and paid out the remaining balances to each employee at the end of March 2023.

FINDING 2021-003 – SIGNIFICANT DEFICIENCY – OTHER MATTER – PLAN COMPLIANCE WITH NORTH DAKOTA CENTURY CODE

Condition

The Fargo Firefighters Pension Association plan document states in section 4, *Service pensions* that the benefit “shall equal 2.50% of average final compensation, times the years of service, to a maximum of 75.00%”.

Criteria

North Dakota Century Code (NDCC) 18-11-15 states that benefits paid out should equal 2.00% of average final compensation, times the years of service, to a maximum of 60.00%.

Effect

The pension plan may be out of compliance with the NDCC.

Cause

Management interpreted NDCC 18-11-15 is 2% requirement to mean a minimum benefit percentage.

Recommendation

We recommend management consult with legal counsel to verify paying 2.5% is in compliance with the NDCC.

Views of Responsible Officials

Management will consider consulting legal counsel to ensure the Plan is in compliance with the NDCC.