

February 18, 2016

Mr. Martin Bode
City Administrator/Clerk
City of Rockville
229 Broadway Street East
Rockville, MN 56369

Re: Engagement Letter for GASB 67/68 Actuarial Services

Dear Martin:

Thank you for this opportunity to provide GASB 67/68 pension actuarial services to the Rockville Fire Relief Association and the City of Rockville. This letter documents the services we will provide for the Relief Association's pension plan and our fees for those services.

Background

Governmental Accounting Standards Board (GASB) statements 67 and 68 will significantly impact the financial statements of Volunteer Fire Relief Associations (VFRAs) and their sponsoring cities. In order to fully comply with these new accounting requirements, pension liabilities must be measured according to GASB rules which are significantly different than Minnesota funding statutes.

The GASB 67/68 report will include the following:

- Comparison of the City's pension accounting expense and balance sheet liability;
- Illustration of the change in Net Pension Liability (the difference between Total Pension Liability and assets "Plan Fiduciary Net Position");
- Determination of the discount rate used to measure pension liabilities. The discount rate is based on a "crossover" calculation that takes into account:
 - The Relief Association's current funded status,
 - Expected investment return, which depends on the fund's investment mix,
 - Projected future contributions and benefit payments to/from the fund; and
 - A municipal bond rate, after the "crossover" point (if any) when pension trust assets are depleted.
- Illustration of the Net Pension Liability's sensitivity to 1% changes in the discount rate, and
- Disclosure of investment returns, data sources, actuarial assumptions and calculation details as required by GASB 67/68.

Scope of the Engagement

We will perform the following services, as chosen by the City and Relief Association:

1. GASB 67/68 Actuarial Valuation

For 2015, we will prepare a GASB 67/68 actuarial valuation report for the Relief Association and the City's financial statements.

2. GASB 67/68 "Off Year" Valuations

A full actuarial valuation of the Total Pension Liability (TPL) is required every two years. In the "off years" between full valuations, the results will be based on actual assets and an estimated TPL "rolled forward" from the previous valuation.

The FYE2016 report will be an off-year report and contain the required GASB 67 information for the Relief Association and the GASB 68 results for the City's financial statements.

The off-year valuations will need to reflect significant changes since the full valuation. A full actuarial valuation may be required two years in a row if there are significant changes like plan amendments, large asset gains/losses or big movements in prevailing interest rates.

3. Future GASB 67/68 Actuarial Reports

Future 2-year reporting cycles will include a full actuarial report and an "off-year" report that contain both GASB 67 and 68 information for the Relief Association and the City.

4. Other

We will prepare other actuarial and consulting projects requested by you from time to time such as attending meetings, presentations, and miscellaneous consulting.

Our Expertise

We've worked with fire relief pension plans for decades, and we are the actuaries for a majority of the Minnesota fire relief annuity pension plans. Over the last year we've worked closely with audit firms and the Office of the State Auditor (OSA) to clarify how GASB 67/68 applies to fire relief pension plans. **This knowledge leadership ensures that you receive an actuarial report prepared by an expert in fire relief pension plan GASB 67/68 accounting.**

In addition, we work with over 250 school districts, cities, counties, and other public entities to determine GASB 43/45 retiree medical liabilities. For decades, we have assisted private employers with similar pension accounting calculations.

Fees and Hourly Billing Rates

The fees for the services described above are outlined below.

GASB 67 & 68 Reporting Beginning in 2015	Fee
FYE2015 GASB 67/68 "on year" actuarial report	\$2,500
FYE2016 GASB 67/68 "off year" report (if no significant changes)	900-1,000

Each year also includes up to one hour of free consulting to review the reports with you over the phone.

This fee quote depends on receiving the census data, asset reconciliation and investment mix in our prescribed format. Census and asset data can be easily submitted by sending us the SC (in Excel format), RF and SID forms that you already supply to the Office of the State Auditor.

We are pleased to provide additional consulting services or changes in valuation scope upon request. Additional fees for such requests will be agreed upon by both parties prior to commencement.

Fees and Hourly Billing Rates (Cont.)

Out-of-scope projects are within the City's and Relief Association's control, and time for them will be billed at our normal hourly rates. For 2016, our hourly rates are \$115 to \$195 for actuarial analysts and \$295 for consulting actuaries. Out-of-scope projects include time spent on:

- meetings and preparation,
- significant changes in your plan, accounting or funding arrangements,
- cleanup of inaccurate data or data not provided in the form requested, and
- follow-up for information not provided within 45 days of our first request.

We will notify you if any out-of-scope fees are to apply, and will be happy to estimate fees for additional projects as requested. Out-of-pocket expenses will be passed on to you without markup. Travel time, if it occurs, is billed at 50% of our normal rates.

You have the right to terminate our services at any time, subject to payment of accrued charges for work we have done through the date we receive notice. We will have the same right of termination (including termination for non-payment of fees and expenses), subject to our obligation to give you reasonable notice.

Performance Guarantees

Ever since our firm was founded in 1991, we have operated on three basic principles which shape the way we conduct ourselves with clients, associates, and competitors and give rise to our performance guarantees:

- Do what's right,
- Do the best you can, and
- Treat others as you would like to be treated.

Written Communication

If we send you a document that does not provide the information you need in a way you can easily understand, we will explain it and/or revise it to meet your needs - at no charge.

Peer Review

Every client deliverable is subject to a formal peer review policy to ensure that all of our work products meet the highest consulting and actuarial standards.

Data Security

All staff members sign a formal data security policy that applies to all of our client work. We perform a daily off-site back-up of our network servers to ensure that all client data is protected.

Error Correction

If an error ever makes it through our review process, we will disclose it as soon as we find it and correct it at no charge. This falls under the "Do what's right" heading above.

Overall

It's simple: if it's important to you, it's important to us.

Acknowledgement and Consent

We trust that this letter satisfactorily outlines our services and fees. If you have any questions, please feel free to contact us. Thank you again for choosing Van Iwaarden Associates to assist you with this project.

Sincerely,



Candace A. Gislason, FSA, MAAA
Consulting Actuary

L/D/C/R: 3/cag/slb

The undersigned authorized representative of the City of Rockville has read this letter from Van Iwaarden Associates, understands its contents, and agrees on behalf of the Relief Association and the City to the terms, conditions and fees set forth above.

Date: _____, 2016

By _____

Title _____

Please also provide auditor contact information below so that we may include them in our data requests.

City Auditor:

Fire Relief Auditor:

Name: _____

Name: _____

Firm: _____

Firm: _____

Email: _____

Email: _____