

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA

FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED  
DECEMBER 31, 2014

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PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA  
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**INTRODUCTORY SECTION**

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2014

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PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA  
ORGANIZATION  
YEAR ENDED DECEMBER 31, 2014

Officers

Doug Nelson  
Chris Blade  
Eric Zimmerman  
Joe Zieska

Title

President  
Vice President  
Secretary  
Treasurer

General Trustees

Rick Kathan  
Paul Yttreness

Trustee  
Trustee

Ex Officio Members

Ken Hedberg  
Frank Boyles  
Doug Hartman

Mayor  
City Manager  
Fire Chief

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**FINANCIAL SECTION**

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2014

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Prior Lake Fire Relief Association  
Prior Lake, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Prior Lake Fire Relief Association (the Association) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

The Association's 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 the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### Summary of Opinions

<u>Opinion Unit</u>	<u>Type</u>
Governmental Activities	Unmodified
General Fund	Unmodified
Aggregate Remaining Fund Information	Modified

## **Basis for Qualified Opinion on Aggregate Remaining Fund Information**

The Association uses Schedules I & II of the state reporting forms as a basis for the calculation of the pension liability. This calculation differs from an Actuarial calculation that is required by GASB 67. We were unable to obtain sufficient audit evidence to ensure that the pension liability is materially stated in accordance with GASB 67. Therefore GASB 67 has not been implemented.

## **Qualified Opinion**

In our opinion, except for the possible effects of the matter described in the “Basis for Qualified Opinion on Aggregate Remaining Fund Information”, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the Association as of December 31, 2014, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States of America.

## **Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and major fund of the Association as of December 31, 2014, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

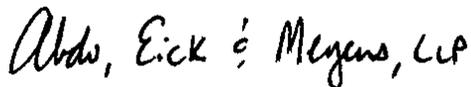
## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis starting on page 11 and the Required Supplementary Information on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures, to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which, consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Association’s basic financial statements as a whole. The introductory section listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
June 12, 2015

## **Management's Discussion and Analysis**

The Management's Discussion and Analysis of the Prior Lake Fire Relief Association's (the Association) financial performance provides an overview of the financial activities and funding conditions for the fiscal year ended December 31, 2014.

### **Using the Annual Report**

The financial statements, which reflect the activities of the Special Pension Trust fund (the Plan), are reported in the Statements of Fiduciary Net Position (see page 20) and the Statement of Changes in Fiduciary Net Position (see page 21). These statements are presented on a full accrual basis and reflect all trust activities as incurred.

The financial statements also include activities of the General fund, which is primarily used to account for the fundraising activities of the Association.

### **Financial Highlights**

- The Plan's net position increased by \$363,403 (or 11.0 percent) as a result of the fiscal year's activities.
- The required contribution from the State of Minnesota (the State) decreased by \$8,162 (or 4.0 percent). There was a voluntary contribution of \$20,000 from the City.
- Net investment income decreased by \$219,879 from fiscal year 2013.
- Accrued pension liability increased by \$388,374 (or 13.4 percent) over the prior year. This increase is due to normal costs and an increase in the pension benefit level from \$6,500 to \$6,800 in 2014.
- The Governmental fund's fund balance increased by \$10,097 (or 48.5 percent) as a result of the fiscal year's activities. The fund balance of the Governmental fund at year end was \$30,925.

## Plan Highlights

The Plan's funding level increased from 113.7 percent to 111.4 percent.

### Plan Net Position

	December 31	
	2014	2013
Cash and cash equivalents	\$ 814	\$ 767
Investments	<u>3,663,818</u>	<u>3,300,462</u>
Net position restricted for pension benefits	<u>\$ 3,664,632</u>	<u>\$ 3,301,229</u>

For the current fiscal year 2014 there is a net increase of \$363,403 (or 11.0 percent) from the previous fiscal year 2013. The previous fiscal year 2013 had a net increase of \$650,710 (or 24.6 percent) from fiscal year 2012. These increases reflect net changes in trust activities.

### Changes in Plan Net Position

The following comparative summary of the changes in net position reflects the activities of the Plan.

	For the Years Ended December 31	
	2014	2013
Additions		
Contributions	\$ 215,194	\$ 282,346
Investment income	<u>154,856</u>	<u>374,735</u>
Total additions	370,050	657,081
Deductions		
Administrative expenses	<u>6,647</u>	<u>6,371</u>
Net increase in net position	363,403	650,710
Net position restricted for pensions		
Beginning of year	<u>3,301,229</u>	<u>2,650,519</u>
End of year	<u>\$ 3,664,632</u>	<u>\$ 3,301,229</u>

The Association's funding policy provided for contributions from the State and the City of Prior Lake (the City) in amounts sufficient to accumulate sufficient assets to pay benefits when due. The annual contributions are the sum of the normal cost, the State contribution payment and the provision for administrative expenses.

## Plan Membership

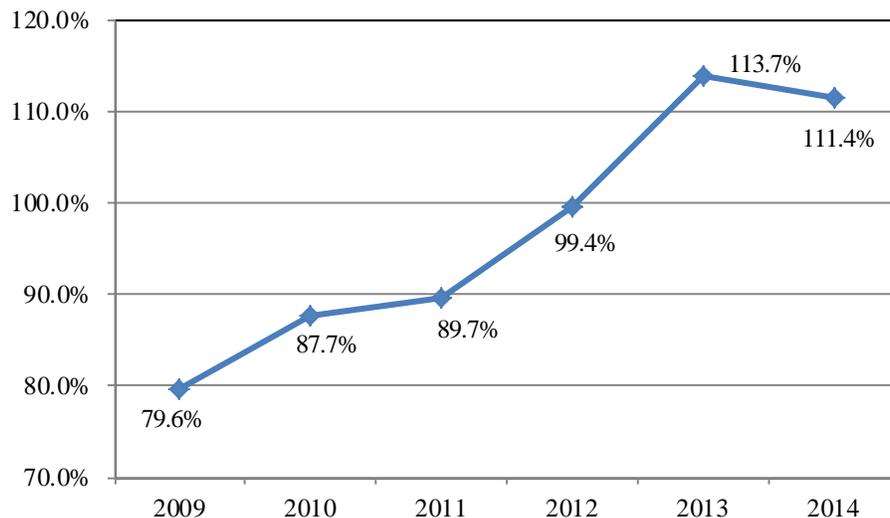
The following table reflects the Association's Plan membership as of the beginning and ending of the year:

	December 31	
	2014	2013
Active participants		
Vested	23	22
Nonvested	19	18
Retirees and beneficiaries	8	7
 Total membership	<u>50</u>	<u>47</u>

## Funding Status

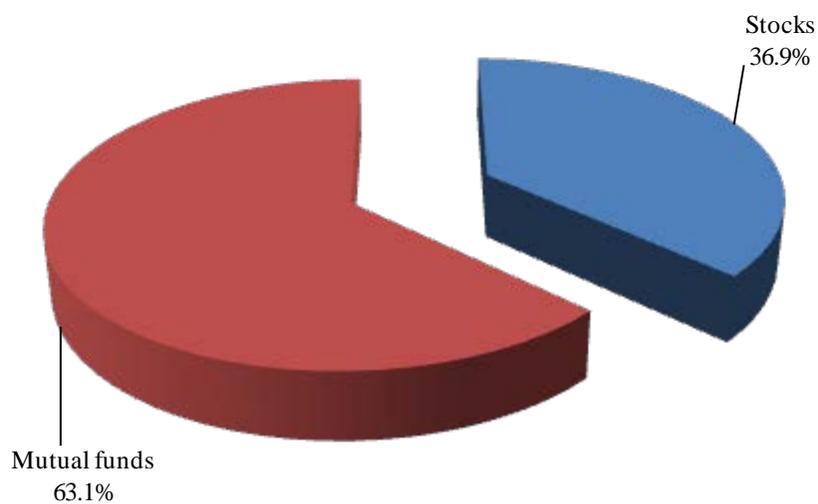
The amount of the total accrued pension liability is based on a standardized measurement established by the Governmental Accounting Standards Board (GASB) that, with some exceptions, must be used by the relief associations for financial statement presentations. This standardized measurement is based on Minnesota statute 69.772. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of service years performed by the members of the Association. A standardized measure of the accrued pension liability was adopted by GASB to enable the readers of relief association financial statements to (a) assess the relief association's funding status on a going-concern basis, (b) assess progress being made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among relief associations.

Because the standardized measure is used only for disclosure purposes by the Association, the measurement is independent of an actuarial computation made to determine contributions to the Association. The following graph represents the percentage funded trend for the last six years.



The following table and graph indicate the asset allocation for December 31, 2014 and 2013:

	December 31			
	2014		2013	
Cash and cash equivalents	\$ 814	- %	\$ 767	- %
Stocks	1,351,515	36.9	1,172,878	35.5
Mutual funds	2,312,303	63.1	2,127,584	64.5
<b>Total cash and investments</b>	<b>\$ 3,664,632</b>	<b>100.0 %</b>	<b>\$ 3,301,229</b>	<b>100.0 %</b>



## Changes in Fund Balance/Net Position for Governmental Fund

The following is a comparative summary of the changes in fund balance of the Governmental fund.

	December 31	
	2014	2013
Revenues		
Fundraising activities	\$ 43,363	\$ 40,556
Outside donations	7,781	2,500
Other income	476	228
Investment income	2	100
Change in fair value of investments	-	150
	51,622	43,534
Expenditures		
Conventions and meetings	8,744	13,063
Flowers, gifts and awards	942	3,394
Fundraising	23,027	18,532
Member recognition	5,290	4,223
Donations	732	3,285
Miscellaneous	2,790	2,336
	41,525	44,833
Net change in fund balances/net position	10,097	(1,299)
Fund balances/net position, January 1	20,828	22,127
Fund balances/net position, December 31	\$ 30,925	\$ 20,828

### Investment Activities

Investment income is vital to the Plan's current and continued financial stability. Therefore, the Board of Trustees has a fiduciary responsibility to act prudently and discretely when making Plan investment decisions. To assist the Board of Trustees in this area, a comprehensive formal investment policy is updated periodically. The investment policy statement was last amended in 2013 to incorporate changes or clearly address statutory requirements adopted by the Minnesota State Legislature.

Portfolio performance is reviewed quarterly by the Board of Trustees and its Consultant. Performance is evaluated individually by money manager style, collectively by investment type and for the aggregate portfolio. Investment types include both domestic and international equities, fixed income and real estate.

The total fund investment performance for fiscal year 2014 on a relative basis to benchmarks was favorable, and the real positive return of 4.7 percent was just below the long-term net 5.0 percent target for the year. These lower returns are viewed, at this time, to be cyclical and the 5.0 assumption is still deemed reasonable in the long-term. However, as with all assumptions, it is monitored annually.

### Economic Factors

The primary function of the pension trust is to (a) appropriately award and pay benefits and (b) manage investments. The opportunity available considering various investment choices is dependent on the asset allocation and money manager oversight.

### Contacting the Plan's Financial Management

The financial report is designed to provide citizens, taxpayers, Plan participants and the marketplace's credit analysis with an overview of the Plan's finances and the prudent exercise of the Board of Trustees' oversight. If you have any questions regarding this report or need additional financial information, please contact the Prior Lake Fire Relief Association, 5316 Hampton Street, Prior Lake, MN 55372.

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**BASIC FINANCIAL STATEMENTS**

**PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA**

**YEAR ENDED  
DECEMBER 31, 2014**

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA  
GOVERNMENTAL FUND BALANCE SHEET/  
STATEMENT OF NET POSITION  
DECEMBER 31, 2014

ASSETS

Cash and cash equivalents

\$ 30,925

FUND BALANCE/NET POSITION

Unrestricted/unassigned

\$ 30,925

The notes to the financial statements are an integral part of this statement.

PRIOR LAKE FIRE RELIEF ASSOCIATION  
 PRIOR LAKE, MINNESOTA  
 STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
 YEAR ENDED DECEMBER 31, 2014

REVENUES	
Fundraising activities	\$ 43,363
Outside donations	7,781
Other income	476
Investment income	2
	2
TOTAL REVENUES	51,622
EXPENDITURES	
Conventions and meetings	8,744
Flowers, gifts and awards	942
Fundraising	23,027
Member recognition	5,290
Donations	732
Miscellaneous	2,790
	2,790
TOTAL EXPENDITURES	41,525
NET CHANGE IN FUND BALANCE/NET POSITION	10,097
FUND BALANCE/NET POSITION, JANUARY 1	20,828
FUND BALANCE/NET POSITION, DECEMBER 31	\$ 30,925

The notes to the financial statements are an integral part of this statement.

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND - SPECIAL PENSION TRUST FUND  
DECEMBER 31, 2014

ASSETS

Cash and cash equivalents	\$ 814
Investments	<u>3,663,818</u>

NET POSITION

Restricted for pension benefits	<u><u>\$ 3,664,632</u></u>
---------------------------------	----------------------------

The notes to the financial statements are an integral part of this statement.

PRIOR LAKE FIRE RELIEF ASSOCIATION  
 PRIOR LAKE, MINNESOTA  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUND - SPECIAL PENSION TRUST FUND  
 YEAR ENDED DECEMBER 31, 2014

ADDITIONS

Contributions

State of Minnesota

2 percent insurance premium tax

\$ 195,194

City of Prior Lake

20,000

Total contributions

215,194

Investment earnings

Interest and dividends

134,324

Appreciation in fair value of investments

49,272

Less: Investment fees

(28,740)

Total investment earnings

154,856

TOTAL ADDITIONS

370,050

DEDUCTIONS

Administrative expenses

Professional fees

4,647

Salaries

2,000

TOTAL DEDUCTIONS

6,647

NET INCREASE IN NET POSITION

363,403

NET POSITION RESTRICTED FOR PENSIONS

BEGINNING OF YEAR

3,301,229

END OF YEAR

\$ 3,664,632

The notes to the financial statements are an integral part of this statement.

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PRIOR LAKE FIRE RELIEF ASSOCIATION  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2014

**Note 1: PLAN DESCRIPTION**

**A. The financial reporting entity**

Firefighters of the City of Prior Lake (the City) are members of the Prior Lake Fire Relief Association (the Association). The Association is the administrator of a single-employer defined benefit pension plan available to firefighters. The plan was established November 1, 1957, and the Association operates under the provisions of Minnesota Laws 1965, chapter 446, as amended and Minnesota statute chapters 69 and 424A. It is governed by a Board of Trustees, (the Board) made up of six members elected by the members of the Association for three-year terms, and the Mayor, City Manager and Fire Chief, who serve as ex-officio voting members of the Board of Trustees.

For financial reporting purposes, the Association's financial statements are not included with the City's financial statements because the Association is not a component unit of the City.

**B. Membership information**

As of December 31, 2014, membership data related to the Association was:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	8
Active plan participants	
Vested	23
Nonvested	19
	19
Total	50

PRIOR LAKE FIRE RELIEF ASSOCIATION  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2014

**Note 1: PLAN DESCRIPTION - CONTINUED**

**C. Pension benefits**

*Retirement benefits:*

According to the bylaws of the Association and pursuant to Minnesota statutes 424A.02, subdivisions 2 and 4, the Association pays to each member who has served as an active firefighter in the Prior Lake Fire Department (the Department) for a period of 20 years or more to his/her resignation, and who has reached the age of 50 years or more, \$6,800 per year of service for lump sum. A member who has served in the Department for at least 20 years, but has not reached the age of 50 years may retire and be placed on the deferred pension roll until he/she reaches the age of 50. Members who retire with less than 20 years of service and have reached the age of 50 years and have completed at least 10 years of active membership are entitled to a reduced service pension not to exceed the amount calculated by multiplying the member's service pension for the completed years of service times the applicable non-forfeitable percentage of pension as follows:

Completed Years of Service	Nonforfeitable Percentage of Pension Amount
10	60 %
11	64
12	68
13	72
14	76
15	80
16	84
17	88
18	92
19	96
20 and thereafter	100

*Disability benefits:*

If a member of the Association becomes totally or permanently disabled, the Association shall pay to such members the sum of \$6,800 lump sum plan for each year that they have served as an active member of the Department. If a member recovers and returns to active duty after receiving a disability pension, any amount which was paid as a disability pension shall be repaid to the Association before he/she can become an active member of the Association.

*Death benefit:*

Upon the death of any member of the Association who is in good standing at the time of their death, the Association shall pay to the surviving spouse, if any and if there is no surviving spouse, to surviving child or children, if any and if no child or children survive, to the estate of such deceased member under ten (10) years of service, the sum of \$6,800 for each year that they served as an active member of the Department. After ten (10) years of service the family survivor will receive the vested amount.

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS**

**A. Measurement focus, basis of accounting and basis of presentation**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual include contributions from the State and the City and investment revenue, including interest on deposits and dividends. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

**B. Description of Funds**

The resources of the Association are accounted for in two funds. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are:

*Major governmental fund:*

The **General fund** is a governmental fund which accounts for the resources not accounted for in other funds. It is used for the good and benefit of the Association as determined by Association bylaws. Its resources consist of fundraising proceeds, investment earnings and miscellaneous sources.

Additionally, the Association reports the following fund type:

The **Fiduciary fund** accounts for assets held by the Association in a trustee capacity for its members.

The **Special Pension Trust fund** is a fiduciary fund for the accumulation of resources to be used for retirement, dependency and disability annuity payments of appropriate amounts and at appropriate times in the future. Resources are contributed by the City at amounts determined by law (taxes), and from the two-percent insurance premium tax and amortization aid from the State.

**C. Fund Balance**

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the Association is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

*Nonspendable* – Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* – Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS - CONTINUED**

*Committed* – Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Board of Directors (the Board), which is the Association’s highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

*Assigned* – Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Board itself or by an official to which the governing body delegates the authority.

*Unassigned* – The residual classification for the General fund and also negative residual amounts in other funds.

The Association considers restricted amounts to be spent first when both restricted and unassigned fund balance is available. Additionally, the Association would first use committed, then assigned, and lastly unassigned amounts of fund balance when expenditures are made.

**D. Income taxes**

The Organization is a nonprofit organization described in Section 501(c) 4 of the Internal Revenue Code and is exempt from Federal and State income taxes.

The Organization has analyzed filing positions with the Internal Revenue Service and the State of Minnesota. The Organization is subject to routine audits by these jurisdictions; however, the Organization is currently not under any audits for any tax periods. The Organization does not anticipate that any of its income tax filing positions would result in a material adverse effect on the Organization’s financial condition, results of operations or cash flow. No liability has been recorded for uncertain tax positions.

As allowed under accounting principles generally accepted in the United States of America, the Organization would accrue, if applicable, income tax related interest and penalties in income tax expense in the Organization’s statement of revenues, expenditures and changes in fund balances. During the year ended December 31, 2014, the Organization did not recognize any interest or penalties. With few exceptions, the Organization is no longer subject to tax examinations by tax authorities for years before 2011.

**Note 3: DETAILED NOTES ON ACCOUNTS**

**Cash and cash equivalents**

The Association’s cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Association’s deposits and investments may not be returned or the Association will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Board of Directors, the Association maintains deposits at those depository banks which are members of the Federal Reserve System.

**Deposits**

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Association’s deposits and investments may not be returned or the Association will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Board, the Association maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

PRIOR LAKE FIRE RELIEF ASSOCIATION  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2014

**Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED**

Minnesota statutes require that all Association deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rate “A” or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated “AA” or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank’s public debt is rated “AA” or better by Moody’s Investors Service, Inc., or Standard & Poor’s Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the Association.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2014:

	Book	Bank
Insured with FDIC	\$ 31,739	\$ 36,901

PRIOR LAKE FIRE RELIEF ASSOCIATION  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2014

**Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED**

**Investments**

As of December 31, 2014, the Association had the following investments that are insured or registered, or securities held by the Association or its agent in the Associations' name.

<u>Types of Investments</u>	<u>Fair Value and Carrying Amount</u>	<u>Credit Quality/ Ratings (1)</u>	<u>Segmented Time Distribution (2)</u>
Pooled investments			
Broker money markets	\$ 288,507	N/A	Less than 6 months
Mutual funds	<u>2,023,796</u>	N/A	N/A
Total pooled investments	<u>2,312,303</u>		
Non-pooled investments			
Domestic stock	1,249,079	N/A	N/A
International stock	<u>102,436</u>	N/A	N/A
Total non-pooled investments	<u>1,351,515</u>		
Total investments	<u>\$ 3,663,818</u>		

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

(2) Interest rate risk is disclosed using the segmented time distribution method.

N/A indicates not applicable or available.

The Association invests funds of the Association in conformance with Minnesota State Statutes 356A.06.

PRIOR LAKE FIRE RELIEF ASSOCIATION  
 PRIOR LAKE, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2014

**Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED**

A reconciliation of cash and investments follows:

	<u>Governmental</u>	<u>Special Pension Trust</u>	<u>Total</u>
Carrying amount of deposits	\$ 30,925	\$ 814	\$ 31,739
Carrying amount of investments	-	3,663,818	3,663,818
 Total	 <u>\$ 30,925</u>	 <u>\$ 3,664,632</u>	 <u>\$ 3,695,557</u>
 Cash and cash equivalents	 \$ 30,925	 \$ 814	 \$ 31,739
Investments	-	3,663,818	3,663,818
 Total	 <u>\$ 30,925</u>	 <u>\$ 3,664,632</u>	 <u>\$ 3,695,557</u>

The investments of the Association are subject to the following risks:

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes, section 11A.24, contains a specific list of asset classes available for investment, including common stocks, bonds, short term securities, real estate, private equity, and resource funds. The Association's investment policy does not address credit risk.
- *Custodial Credit Risk.* The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Association's investment policy does not address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- *Concentration of Credit Risk.* Is the risk of loss attributed to the magnitude of a government's investment in a single issuer. There is no one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represents 5 percent or more of the total Associations investments.
- *Interest Rate Risk.* Is the risk that changes in interest rates will adversely affect the fair value of an investment. Minnesota statutes prescribe the maximum percentage of fund assets that may be invested in various asset classes and contain specific restrictions to ensure the quality of the investments. The Association's investment policy states that investments in all asset classes shall be in accordance with any relevant statutes. The Trustees wish to have the plan assets balanced across several different asset classes, strategies, and managers, using the principles of asset allocation and diversification. Investment management of Plan assets shall be in accordance with the following target asset mix:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Acceptable Variance</u>
Total Equity	50%	+/- 15%
Total Fixed Income and Cash	50%	+/- 15%

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
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**Note 4: FUNDING STATUS AND PROGRESS**

The amount of the total accrued pension liability is based on a standardized measurement established by the Governmental Accounting Standards Board (GASB) that, with some exceptions, must be used by the relief associations for financial statement presentation. This standardized measurement is based on Minnesota statute 69.772. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of service years performed by the members of the Association. A standardized measure of the accrued pension liability was adopted by GASB to enable the readers of relief association financial statements to (a) assess the relief association's funding status on a going-concern basis, (b) assess progress being made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among relief associations.

Because the standardized measure is used only for disclosure purposes by the Association, the measurement is independent of an actuarial computation made to determine contributions to the Association.

**Note 5: CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE**

The Association's funding policy provided for contributions from the State and the City in amounts sufficient to accumulate sufficient assets to pay benefits when due. The annual contribution is the sum of the normal cost, the State contribution payment and the provision for administrative expenses.

The Department is comprised of volunteers; therefore, there are no payroll expenditures or covered payroll percentage calculations.

A required contribution of \$195,194 was made by the State in accordance with Minnesota statute requirements for the year ended December 31, 2014. There was also a voluntary contribution of \$20,000 from the City.

**Note 6: RISK MANAGEMENT**

The Association is exposed to various risks of loss related to theft of assets for which the Association carried commercial insurance policies. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any part of the past three fiscal years. The Association invests in mutual funds that are subject to market value fluctuations.

**Note 7: EVALUATION OF SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through June 12, 2015, the date which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA

YEAR ENDED  
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PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2014

**A. Schedule of Funding Progress**

Valuation Date	Value of Assets	Accrued Liability	Excess of (Unfunded) Accrued Liability	Funded Rate	Benefit per Year of Service
12/31/14	\$ 3,664,632	\$ 3,290,815	\$ 373,817	111.4 %	\$ 6,800
12/31/13	3,301,229	2,902,441	398,788	113.7	6,500
12/31/12	2,650,519	2,665,512	(14,993)	99.4	6,500
12/31/11	2,548,946	2,843,178	(294,232)	89.7	6,500
12/31/10	2,316,807	2,640,554	(323,747)	87.7	6,500
12/31/09	1,956,359	2,456,853	(500,494)	79.6	6,500

**B. Schedule of Employer Contribution**

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12/31/14	\$ 215,194	100.0 %
12/31/13	282,346	100.0
12/31/12	222,863	100.0
12/31/11	240,586	100.0
12/31/10	228,854	100.0
12/31/09	143,953	100.0

**C. Notes to Required Supplementary Information**

Valuation date	12/31/14
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	5.0%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

**COMPLIANCE SECTION**

**PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA**

**YEAR ENDED  
DECEMBER 31, 2014**

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INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

Board of Trustees  
Prior Lake Fire Relief Association  
Prior Lake, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Prior Lake Fire Relief Association (the Association) as of and for the year ended December 31, 2014, which collectively comprise the Association's basic financial statements and have issued our report thereon dated June 12, 2015.

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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota statute 6.65. Accordingly, the audit included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers three categories of compliance to be tested in audits of relief associations: deposits and investments, conflicts of interest and public relief associations. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Association complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Trustees, the City of Prior Lake, the members, and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

*Abdo, Eick & Meyers, LLP*

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
June 12, 2015