

Financial Statements and
Required Supplementary Information

Prior Lake Fire Relief Association

Prior Lake, Minnesota

For the Year Ended
December 31, 2015

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PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
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DECEMBER 31, 2015

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INTRODUCTORY SECTION

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2015

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PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
ORGANIZATION
YEAR ENDED DECEMBER 31, 2015

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

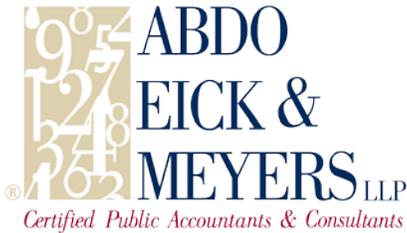
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FINANCIAL SECTION

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2015

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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, 2015, 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

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Basis for Qualified Opinion on Aggregate Remaining Fund Information

The Association uses the Schedule Form 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, 2015, 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, 2015, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

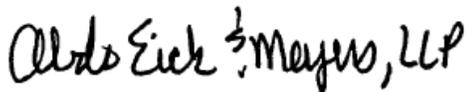
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis starting on page 13 and the Required Supplementary Information on page 34 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 9, 2016

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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, 2015.

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 22) and the Statement of Changes in Fiduciary Net Position (see page 23). 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 \$52,171 (or 1.4 percent) as a result of the fiscal year's activities.
- The required contribution from the State of Minnesota (the State) increased by \$12,893 (or 6.6 percent). There was a voluntary contribution of \$20,000 from the City.
- Net investment income decreased by \$324,132 from fiscal year 2014.
- Accrued pension liability increased by \$330,459 (or 10.0 percent) over the prior year. This increase is due to normal costs and an increase in the pension benefit level from \$6,800 to \$7,100 in 2015.
- The Governmental fund's fund balance increased by \$2,356 (or 7.6 percent) as a result of the fiscal year's activities. The fund balance of the Governmental fund at year end was \$33,281.

Plan Highlights

The Plan's funding level decreased from 111.4 percent to 102.6 percent.

Plan Net Position

	December 31	
	2015	2014
Cash and cash equivalents	\$ 229,262	\$ 814
Investments	<u>3,487,541</u>	<u>3,663,818</u>
Net position restricted for pension benefits	<u>\$ 3,716,803</u>	<u>\$ 3,664,632</u>

For the current fiscal year 2015 there is a net increase of \$52,171 (or 1.4 percent) from the previous fiscal year 2014. The previous fiscal year 2014 had a net increase of \$363,403 (or 11.0 percent) from fiscal year 2013. 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	
	2015	2014
Additions		
Contributions	\$ 228,087	\$ 215,194
Investment income (loss)	<u>(169,276)</u>	<u>154,856</u>
Total additions	58,811	370,050
Deductions		
Administrative expenses	<u>6,640</u>	<u>6,647</u>
Net increase in net position	52,171	363,403
Net position restricted for pensions		
Beginning of year	<u>3,664,632</u>	<u>3,301,229</u>
End of year	<u>\$ 3,716,803</u>	<u>\$ 3,664,632</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

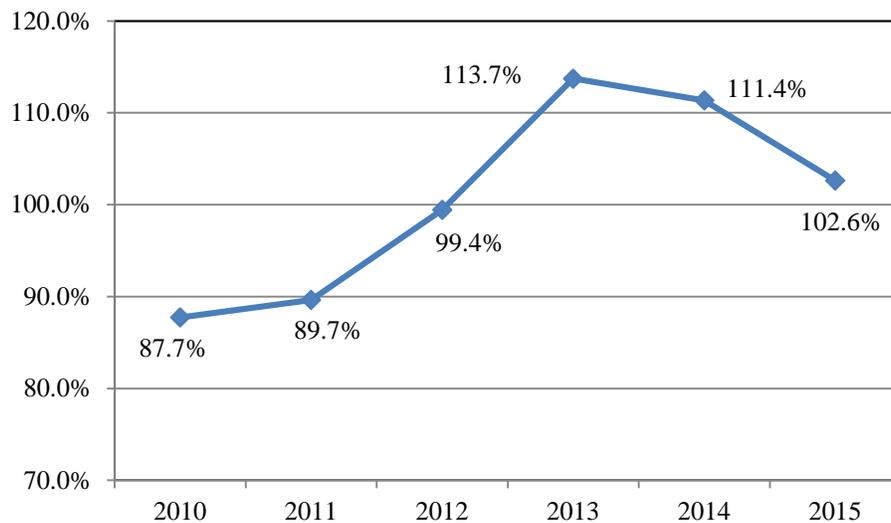
The following table reflects the Association's Plan membership as of the beginning and ending of the year:

	December 31	
	2015	2014
Active participants		
Vested	22	23
Nonvested	13	19
Retirees and beneficiaries	12	8
 Total membership	<u>47</u>	<u>50</u>

Funding Status

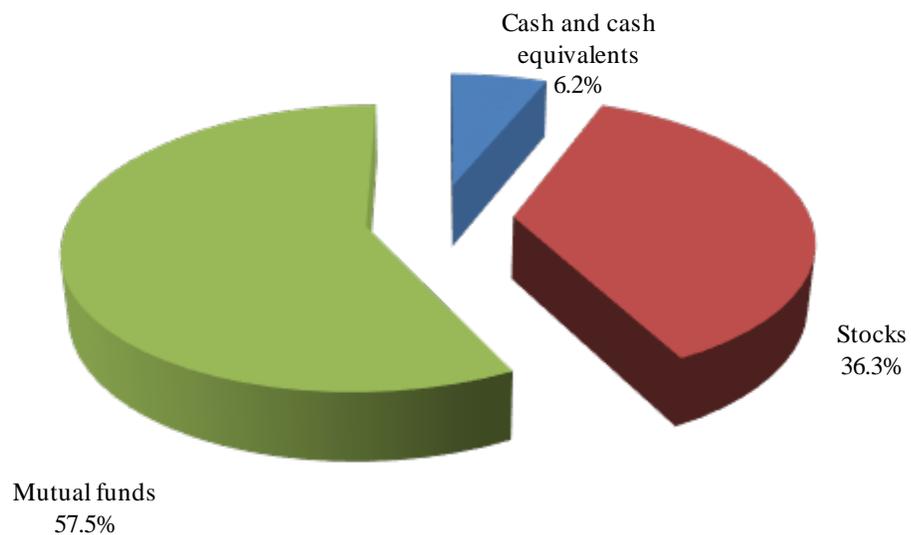
The amount of the total accrued pension liability is based on a standardized measurement established by the Governmental Accounting Standards Board (GASB) that, with some exceptions, must be used by the relief associations for financial statement presentations. This standardized measurement is based 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, 2015 and 2014:

	December 31			
	2015		2014	
Cash and cash equivalents	\$ 229,262	6.2 %	\$ 814	- %
Stocks	1,349,793	36.3	1,351,515	36.9
Mutual funds	<u>2,137,748</u>	<u>57.5</u>	<u>2,312,303</u>	<u>63.1</u>
Total cash and investments	<u>\$ 3,716,803</u>	<u>100.0 %</u>	<u>\$ 3,664,632</u>	<u>100.0 %</u>



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	
	2015	2014
Revenues		
Fundraising activities	\$ 45,232	\$ 43,363
Outside donations	805	7,781
Other income	110	476
Investment income	2	2
Total revenues	46,149	51,622
Expenditures		
Conventions and meetings	8,316	8,744
Dues	110	11
Flowers and gifts	360	942
Fundraising	25,755	23,027
Member recognition	6,503	5,290
Donations	1,370	732
Advertising and promotion	346	-
Equipment and supplies	670	540
Miscellaneous	363	2,239
Total expenditures	43,793	41,525
Net change in fund balances/net position	2,356	10,097
Fund balances/net position, January 1	30,925	20,828
Fund balances/net position, December 31	\$ 33,281	\$ 30,925

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 2015 on a relative basis to benchmarks was unfavorable, and the real negative return of 4.6 percent was 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, P O Box 234, Prior Lake, Minnesota 55372.

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BASIC FINANCIAL STATEMENTS

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

**YEAR ENDED
DECEMBER 31, 2015**

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
GOVERNMENTAL FUND BALANCE SHEET/
STATEMENT OF NET POSITION
DECEMBER 31, 2015

ASSETS

Cash and cash equivalents

\$ 33,281

FUND BALANCE/NET POSITION

Unrestricted/unassigned

\$ 33,281

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, 2015

REVENUES	
Fundraising activities	\$ 45,232
Outside donations	805
Other income	110
Interest income	<u>2</u>
TOTAL REVENUES	<u>46,149</u>
EXPENDITURES	
Conventions and meetings	8,316
Dues	110
Flowers and gifts	360
Fundraising	25,755
Member recognition	6,503
Donations	1,370
Advertising and promotion	346
Equipment and supplies	670
Miscellaneous	<u>363</u>
TOTAL EXPENDITURES	<u>43,793</u>
NET CHANGE IN FUND BALANCE/NET POSITION	2,356
FUND BALANCE/NET POSITION, JANUARY 1	<u>30,925</u>
FUND BALANCE/NET POSITION, DECEMBER 31	<u><u>\$ 33,281</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 FIDUCIARY NET POSITION
FIDUCIARY FUND - SPECIAL PENSION TRUST FUND
DECEMBER 31, 2015

ASSETS

Cash and cash equivalents	\$ 229,262
Investments	<u>3,487,541</u>

NET POSITION

Restricted for pension benefits	<u><u>\$ 3,716,803</u></u>
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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, 2015

ADDITIONS

Contributions

State of Minnesota

2 percent insurance premium tax

\$ 208,087

City of Prior Lake

20,000

Total contributions

228,087

Investment earnings

Interest and dividends

110,718

Depreciation in fair value of investments

(249,698)

Less: Investment fees

(30,296)

Total investment loss

(169,276)

TOTAL ADDITIONS

58,811

DEDUCTIONS

Administrative expenses

Professional fees

4,640

Salaries

2,000

TOTAL DEDUCTIONS

6,640

NET INCREASE IN NET POSITION

52,171

NET POSITION RESTRICTED FOR PENSIONS

BEGINNING OF YEAR

3,664,632

END OF YEAR

\$ 3,716,803

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, 2015

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, 2015, membership data related to the Association was:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	12
Active plan participants	
Vested	22
Nonvested	13
	47
Total	47

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

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, \$7,100 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 \$7,100 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 \$7,100 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, 2015

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.

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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

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:

Non-spendable - 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.

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 Association 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 Association has analyzed filing positions with the Internal Revenue Service and the State of Minnesota. The Association is subject to routine audits by these jurisdictions; however, the Association is currently not under any audits for any tax periods. The Association does not anticipate that any of its income tax filing positions would result in a material adverse effect on the Association'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 Association would accrue, if applicable, income tax related interest and penalties in income tax expense in the Association's statement of revenues, expenditures and changes in fund balances. During the year ended December 31, 2015, the Association did not recognize any interest or penalties. With few exceptions, the Association is no longer subject to tax examinations by tax authorities for years before 2012.

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

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.

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, 2015:

<u>Fund</u>	<u>Book</u>	<u>Bank</u>
Governmental Fund	\$ 33,281	\$ 35,511
Special Pension Trust Fund	\$ 229,262	\$ 229,262

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2015

Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED

Investments

As of December 31, 2015, 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	\$ 248,447	N/A	Less than 6 months
Mutual funds	<u>1,889,301</u>	N/A	N/A
Total pooled investments	<u>2,137,748</u>		
Non-pooled investments			
Domestic stock	1,228,712	N/A	N/A
International stock	<u>121,081</u>	N/A	N/A
Total non-pooled investments	<u>1,349,793</u>		
Total investments	<u>\$ 3,487,541</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, 2015

Note 3: DETAILED NOTES ON ACCOUNTS - CONTINUED

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%

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.

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 \$208,087 was made by the State in accordance with Minnesota statute requirements for the year ended December 31, 2015. 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 Association has evaluated subsequent events through June 9, 2016, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

PRIOR LAKE FIRE RELIEF ASSOCIATION
PRIOR LAKE, MINNESOTA

YEAR ENDED
DECEMBER 31, 2015

PRIOR LAKE FIRE RELIEF ASSOCIATION
 PRIOR LAKE, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2015

A. Schedule of Funding Progress

Valuation Date	Value of Assets	Accrued Liability	Excess of (Unfunded) Accrued Liability	Funded Rate	Benefit per Year of Service
12/31/15	\$ 3,716,803	\$ 3,621,274	\$ 95,529	102.6 %	\$ 7,100
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

B. Schedule of Employer Contributions

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12/31/15	\$ 228,087	100.0 %
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

C. Notes to Required Supplementary Information

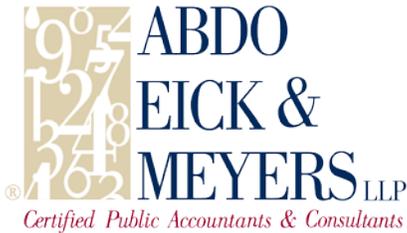
Valuation date	12/31/15
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	
Normal cost	20 years
Prior service cost	10 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	5.0%
Projected salary increases	N/A
Inflation rate	N/A
Cost of living adjustments	None

COMPLIANCE SECTION

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

**YEAR ENDED
DECEMBER 31, 2015**

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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, in accordance with auditing standards generally accepted in the United States of America, 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, 2015, and the related notes to the financial statements, and have issued our report thereon dated June 9, 2016.

The *Minnesota Legal Compliance Audit Guide for Relief Associations*, promulgated by the State Auditor pursuant to Minn. Statute 6.65, contains two categories of compliance to be tested in audits of relief associations: deposits and investments, and relief associations.

In connection with our audit, nothing came to our attention that caused us to believe that the Association failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Relief Associations*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Association's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the Association and 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
Mankato, Minnesota
June 9, 2016

Management Letter

Prior Lake Fire Relief Association

Prior Lake, Minnesota

For the Year Ended
December 31, 2015

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) for the year ended December 31, 2015, and have issued our report thereon dated June 9, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Association. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Audit Findings

In planning and performing our audit of the financial statements of the Association for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we consider the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management, 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 combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider finding 2015-1 to be a significant deficiency in internal control over financial reporting.

2015-1 Financial report preparation

- Condition:* As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with Associations of your size. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
- Criteria:* Internal controls should be in place to provide reasonable assurance over financial reporting.
- Cause:* From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with Associations of your size.
- Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.
- Recommendation:* Under these circumstances, the most effective controls lie in management's knowledge of the Association's financial operations. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. Regarding the specific situation listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your checking and investment information to the amounts reported in the financial statements plus or minus any applicable accruals.

Management Response:

For now, the Association's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions. We noted no instances of noncompliance with Minnesota Statutes.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you through various means.

Qualitative Aspects of Accounting Practices

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the fire relief are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Association during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the actuarial accrued liability. This is based on the funding formula prescribed by the State of Minnesota. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements noted during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 9, 2016.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Our principal observations and recommendations are summarized below. These recommendations resulted from our observations made in connection with our audit of the Association's financial statements for the year ended December 31, 2015.

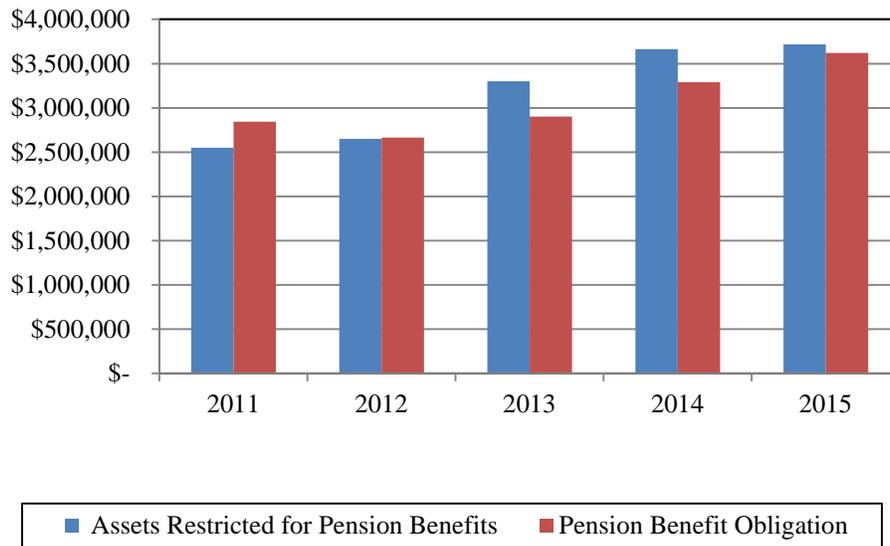
Financial Position

Assets and Pension Benefit Obligation Comparison

A comparison of assets and pension benefit obligations for the past five years is as follows:

Year	Assets Restricted for Pension Benefits	Pension Benefit Obligation	Pension Percentage Funded	Funded Pension Benefits Obligation
2011	\$ 2,548,946	\$ 2,843,178	89.7 %	\$ (294,232)
2012	2,650,519	2,665,512	99.4	(14,993)
2013	3,301,229	2,902,441	113.7	398,788
2014	3,664,632	3,290,815	111.4	373,817
2015	3,716,803	3,621,274	102.6	95,529

Assets and Pension Benefit Obligation

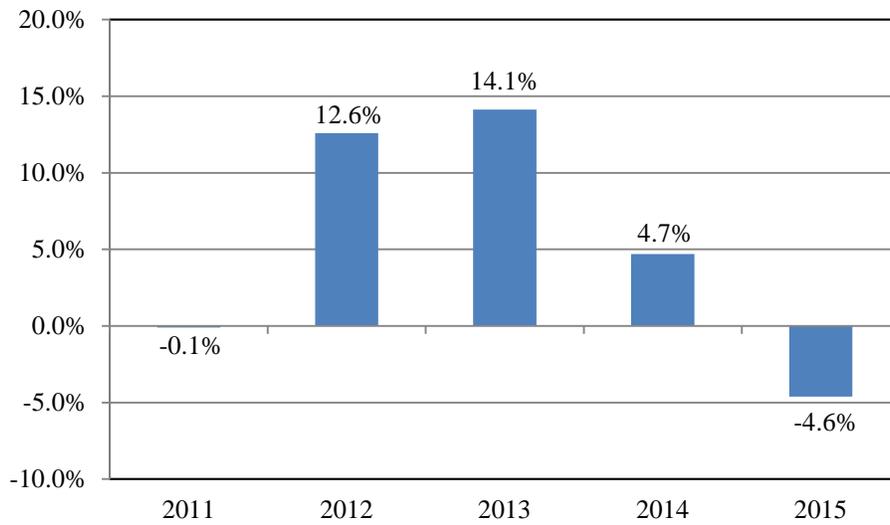


Rates of Return

The Association’s investment rates of return are based on the total investment income as a percentage of the total assets held in trust for pension benefits.

Year	Interest and Dividends	Appreciation/ (Depreciation) of Investments	Investment fees	Total Investment Income/(Loss)	Assets Restricted for Pension Benefits	Investment Rate of Return
2011	\$ 56,465	\$ (59,110)	\$ -	\$ (2,645)	\$ 2,548,946	(0.1) %
2012	63,447	257,443	-	320,890	2,650,519	12.6
2013	97,625	298,592	(21,482)	374,735	3,301,229	14.1
2014	134,324	49,272	(28,740)	154,856	3,664,632	4.7
2015	110,718	(249,698)	(30,296)	(169,276)	3,716,803	(4.6)

Investment Rates of Return



Peer Group Comparisons

The following are two comparisons of statistics that will provide information on how your organization compares with other fire relief associations around the state. We used averages from approximately 60 fire relief associations that we work with that have under \$200,000 in assets to several million in assets. These averages include a 5 year trend of the rate of return and a 5-year trend of funding percentage as compared to averages of the other 60 relief associations.

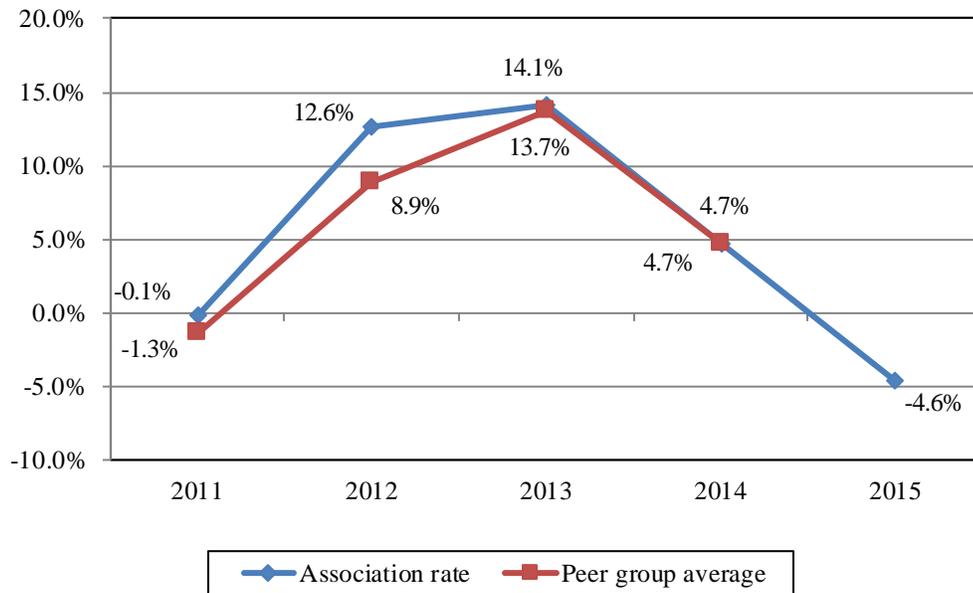
Averages	Calculation	2011	2012	2013	2014	2015
Average rate of returns	Net investment income/beginning assets	-0.1% <i>-1.3%</i>	12.6% <i>8.9%</i>	14.1% <i>13.7%</i>	4.7% <i>4.7%</i>	-4.6% <i>N/A</i>
Percentage funded	Assets/accrued liability	89.7% <i>98.5%</i>	99.4% <i>105.4%</i>	113.7% <i>118.0%</i>	111.4% <i>119.6%</i>	102.6% <i>N/A</i>

Prior Lake Fire Relief Association

Peer Group

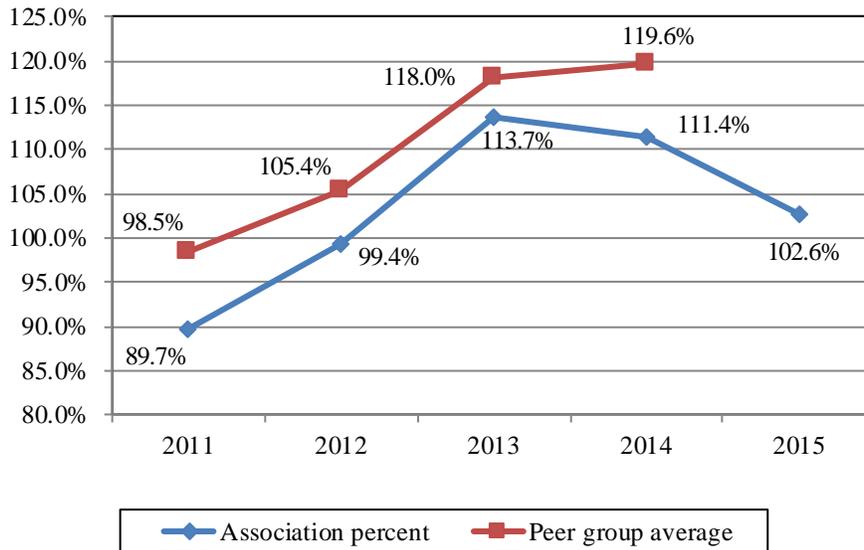
Rate of Return

The rate of return is calculated by taking the net investment income and dividing it by the beginning assets. This graph shows a trend of your returns over a 5 year period in relationship to other relief associations that we work with.



Funding Percentage

The funding percentage is calculated by taking the Special fund assets and dividing it by the accrued pension liability. This graph shows your funding percentage for a 5 year period in comparison to other relief associations.



Best Practices in Monitoring Investment Results

The Board has a fiduciary responsibility to its membership related to its assets. In order to communicate relevant information to membership, we recommend the following:

- **Investment performance should be benchmarked and reviewed with membership**
 - We believe this can easily be addressed by more frequent reporting that uses complete financial information and appropriate investment benchmarks. With better information, more timely and prudent investment decisions can be made. We have provided a table for analysis in this letter. We recommend that the Board consider other performance measures and develop a strategy to report on them.
- **Investment policy should be reviewed annually**
 - We recommend that the Association review their investment policy. Policies should:
 1. Contain enough detail to implement a specific investment strategy
 2. Outline the duties and responsibilities of all parties
 3. Set forth portfolio diversification, rebalancing and risk guidelines
 4. Incorporate specific, measurable investment objectives or benchmarks

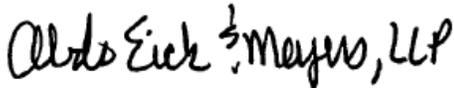
We can assist with the implementation of either of these items.

* * * * *

This report is intended solely for the information and use of the members of the Board of Trustees, management, others within the administration of the Association and the Minnesota Office of the State Auditor, and is not intended to be and should not be used by anyone other than those specified parties.

The comments and recommendation in this report are purely constructive in nature, and should be read in this context and are not intended to be and should not be used by anyone other than these specified parties. Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service, and for the courtesy and cooperation extended to us by your staff.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
June 9, 2016