

Financial Report
For the Year Ended December 31, 2015

Lakeville Fire Relief Association



LAKEVILLE FIRE RELIEF ASSOCIATION

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I. INTRODUCTORY SECTION

LAKEVILLE FIRE RELIEF ASSOCIATION
BOARD OF TRUSTEES AND OFFICERS
DECEMBER, 31, 2015

<u>Officer</u>	<u>Position</u>	<u>Term Expires January</u>
Joe Huettl	President	2018
Jeff Denny	Vice President	2016
Derrick Gaborski	Treasurer	2017
Jesse Nergard	Secretary	2016
Brian Jacobson	Trustee	2017
Bob Rinkenberger	Trustee	2018
<u>Ex-Officio</u>		
Bart Davis	City of Lakeville – Council Member	
Jerilyn Erickson	Finance Director	
Mike Meyer	Fire Chief	

II. FINANCIAL SECTION



Independent Auditor's Report

Board of Trustees
Lakeville Fire Relief Association
Lakeville, 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 Lakeville Fire Relief Association, Lakeville, Minnesota, as of and for the year ended December 31, 2015, and the related notes to 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 from 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 the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

The Association has not established procedures to provide assurance that all cash collections are recorded in the General Fund. Accordingly, it was not practicable for us to extend our audit procedures of such cash collections beyond the amounts recorded.

Qualified Opinions

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund (General Fund) of the Lakeville Fire Relief Association, Lakeville, Minnesota, as of December 31, 2015, and the respective changes in the financial position thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BerganKDV, Ltd.

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com



Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information (Special Pension Trust Fund) of the Lakeville Fire Relief Association, Lakeville, Minnesota, as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance 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 on pages 4 through 7, the Schedule of Changes in Net Pension Liability and Related Ratios on page 21, the Schedule of Employer Contributions and Non-Employer Contributing Entities on page 22 and the Schedule of Investment Returns on page 23 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 (GASB), 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. The Supplementary Information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

A handwritten signature in cursive script that reads "BergankDV Ltd." followed by a period.

Minneapolis, Minnesota
March 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LAKEVILLE FIRE RELIEF ASSOCIATION
LAKEVILLE, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

The discussion and analysis of the Lakeville Fire Relief Association's (the Association) financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the basic financial statements, which follow this discussion.

Financial Highlights – General Fund

The Association maintains a general fund for the purpose of providing non-pension related benefits to the current membership. These benefits include, but are not limited to recognition gifts for retiring members and memorials/flowers to members and their families. The main source of funding is provided through fundraising activities.

The General Fund Balance at December 31, 2015 amounted to \$17,494 which is an increase from 2014 of \$364.

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND**

	<u>2015</u>	<u>2014</u>	<u>Increase/ (Decrease)</u>
REVENUES:			
Investment Income	\$ 2	\$ 2	\$ -
Donations	9,643	5,268	4,375
Fundraising	<u>11,697</u>	<u>10,146</u>	<u>1,551</u>
Total Revenues	<u>21,342</u>	<u>15,416</u>	<u>5,926</u>
EXPENSES/EXPENDITURES:			
Fundraising	6,935	7,697	(762)
Donations	5,342	5,025	317
Other	<u>8,701</u>	<u>4,854</u>	<u>3,847</u>
Total Expenses/Expenditures	<u>20,978</u>	<u>17,576</u>	<u>3,402</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenses/Expenditures	364	(2,160)	2,524
Net Position/Fund Balance - January 1	<u>17,130</u>	<u>19,290</u>	<u>(2,160)</u>
Net Position/Fund Balance - December 31	<u>\$ 17,494</u>	<u>\$ 17,130</u>	<u>\$ 364</u>

Financial Highlights – Special Pension Trust Fund

The Association's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2015, the Association's net position (\$7,478,959) exceeded the actuarial calculated pension liabilities (\$4,829,007) by \$2,649,952, thereby resulting in the funded ratio of 154.88%.

The net position of the Special Fund administered by the Association was \$7,478,959 which is an increase of \$156,215 during the 2015 fiscal year.

Contributions to the fund for the year were \$378,363, comprised of state aid for fire relief (\$335,889) and state supplemental aid (\$3,000). Investment income amounted to \$39,474.

Fund deductions decreased as a result of pension payments of \$210,816 in 2015. Total deductions for pension and administrative expenses decreased from \$570,538 in 2014 to \$222,148 in 2015.

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position report information about the Association, as a whole, and about its financial condition that should help answer the question: Is the Association, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred (if measurable). Benefits are recognized when due and payable in accordance with the terms of the plan.

The Statement of Fiduciary Net Position presents all of the Association's assets and liabilities of the Special Pension Trust Fund, with the difference reported as Net Position. Over time, increases and decreases in Net Position measure whether the Association's financial position is improving or deteriorating. The Statement of Changes in Fiduciary Net Position presents how the Association's Net Position changed during the most recent fiscal year. These two statements should be reviewed along with the Schedule of Funding Progress – Special Pension Trust Fund and the Schedule of Employer Contributions and Other Entities – Special Pension Trust Fund to determine whether the Association is becoming financially stronger or weaker and to understand changes over time in the funded status of the Association.

Financial Analysis – Special Pension Trust Fund

The Association's total assets as of December 31, 2015, were \$7,478,959 which is comprised primarily of investments. Total assets increased \$156,215 or 2.1 percent from fiscal year 2014.

Association assets exceeded its liabilities at the close of fiscal year 2015 by \$7,478,959. Total net position increased \$156,215 or 2.1 percent between fiscal years 2014 and 2015.

FIDUCIARY NET POSITION - SPECIAL PENSION TRUST FUND

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Assets			
Cash	\$ 9,101	\$ 5,360	\$ 3,741
Receivables/Prepays	11,965	15,562	(3,597)
Investments	<u>7,457,893</u>	<u>7,301,822</u>	<u>156,071</u>
Total assets	<u>7,478,959</u>	<u>7,322,744</u>	<u>156,215</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net position	<u>\$ 7,478,959</u>	<u>\$ 7,322,744</u>	<u>\$ 156,215</u>

Additions to Net Position

The reserves needed to finance pension benefits are accumulated from revenues derived from state aids, municipal contributions and earnings on investments. Total additions for the fiscal year 2015 totaled \$378,363 which is a \$492,049 decrease from 2014.

State aid for fire relief increased from \$312,542 in 2014 to \$335,889. There were no municipal contributions in 2015 compared to \$60,000 in 2014. Investment revenue amounted to \$39,474 as a result of deteriorating market conditions at the end of the year.

Deductions from Net Position

The primary deductions of the Association include the payment of pension benefits and the cost of administering the fund. Total deductions for fiscal year 2015 were \$222,148, which is a decrease of \$348,390 from fiscal year 2014. Administrative expenses remained fairly consistent with the previous year.

CHANGES IN FIDUCIARY NET POSITION - SPECIAL PENSION TRUST FUND

	Year Ended December 31,		Increase (Decrease)
	2015	2014	
Additions			
State aid	\$ 338,889	\$ 319,542	\$ 19,347
Municipal contributions	-	60,000	(60,000)
Net investment income	39,474	490,870	(451,396)
Total additions	378,363	870,412	(492,049)
Deductions			
Benefits and refunds paid to participants	210,816	559,140	(348,324)
Administrative expenses	11,332	11,398	(66)
Total deductions	222,148	570,538	(348,390)
Net increase/(decrease)	\$ 156,215	\$ 299,874	\$ (143,659)

The Association as a Whole

The Association's net position has experienced an increase as a result of a lower number of pension benefits paid out during 2015. Investments are invested 62% with the Minnesota State Board of Investment and 38% in bonds, certificates of deposit, money market mutual funds and government agencies.

Requests for Information

This financial report is designed to provide a general overview of the Lakeville Fire Relief Association's finances for all those with an interest in the Association's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the City of Lakeville Finance Department at 20195 Holyoke Avenue, Lakeville, Minnesota, 55044, or at (952) 985-4400.

BASIC FINANCIAL STATEMENTS

LAKEVILLE FIRE RELIEF ASSOCIATION
STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET –
GENERAL FUND
DECEMBER 31, 2015
(WITH COMPARATIVE AMOUNTS FOR 2014)

	2015	2014
ASSETS:		
Cash and Investments	\$ 17,518	\$ 17,773
Total Assets	\$ 17,518	\$ 17,773
LIABILITIES AND EQUITY:		
Liabilities		
Accounts Payable	\$ 24	\$ 643
Equity		
Net Position - Unrestricted/Fund Balance - Unassigned	17,494	17,130
Total Liabilities and Equity	\$ 17,518	\$ 17,773

LAKEVILLE FIRE RELIEF ASSOCIATION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE AMOUNTS FOR 2014)

	2015	2014
REVENUES:		
Investment Income	\$ 2	\$ 2
Donations	9,643	5,268
Fundraising	11,697	10,146
Total Revenues	21,342	15,416
 EXPENSES/EXPENDITURES:		
Fundraising	6,935	7,697
Donations	5,342	5,025
Other	8,701	4,854
Total Expenses/Expenditures	20,978	17,576
 Excess (Deficiency) of Revenues		
Over (Under) Expenses/Expenditures	364	(2,160)
 Net Position/Fund Balance - January 1	17,130	19,290
 Net Position/Fund Balance - December 31	\$ 17,494	\$ 17,130

LAKEVILLE FIRE RELIEF ASSOCIATION
STATEMENT OF FIDUCIARY NET POSITION SPECIAL PENSION TRUST FUND
DECEMBER 31, 2015
(WITH COMPARATIVE AMOUNTS FOR 2014)

	2015	2014
ASSETS:		
Cash	\$ 9,101	\$ 5,360
Investments:		
Government Obligations	291,786	328,372
Corporate Bonds	409,862	514,747
Certificates of Deposit	1,934,565	1,769,053
Mutual Funds	185,003	54,995
State Board of Investment		
Growth	2,117,536	2,114,774
Index Stock	2,128,924	2,118,113
International	390,217	401,768
Total Investments	7,457,893	7,301,822
Due from Other Governmental Units	3,000	7,000
Interest Receivable	8,965	8,562
 Total Assets	 7,478,959	 7,322,744
LIABILITIES:		
Salaries/Accounts Payable	-	-
 Total Liabilities	 -	 -
NET POSITION:		
Restricted for Pensions	\$ 7,478,959	\$ 7,322,744

LAKEVILLE FIRE RELIEF ASSOCIATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – SPECIAL PENSION TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE AMOUNTS FOR 2014)

	<u>2015</u>	<u>2014</u>
ADDITIONS:		
Contributions:		
State Fire Aid	\$ 335,889	\$ 312,542
State Supplemental Aid	3,000	7,000
Municipal Contributions	-	60,000
Total contributions	<u>338,889</u>	<u>379,542</u>
Investment Income:		
Interest and Dividend Earnings	38,528	35,236
Net Appreciation/(Depreciation) in Fair Value of Investments	1,101	455,634
Subtotal	<u>39,629</u>	<u>490,870</u>
Less: Investment management fees	<u>(155)</u>	<u>-</u>
Total investment income	<u>39,474</u>	<u>490,870</u>
TOTAL ADDITIONS	<u>378,363</u>	<u>870,412</u>
DEDUCTIONS:		
Administrative wages and payroll taxes	5,167	5,167
Pension benefits	210,816	559,140
Professional fees	6,125	3,725
Other	40	2,506
TOTAL DEDUCTIONS	<u>222,148</u>	<u>570,538</u>
NET INCREASE/(DECREASE)	156,215	299,874
NET POSITION RESTRICTED FOR PENSIONS, JANUARY 1	<u>7,322,744</u>	<u>7,022,870</u>
NET POSITION RESTRICTED FOR PENSIONS, DECEMBER 31	<u><u>\$ 7,478,959</u></u>	<u><u>\$ 7,322,744</u></u>

NOTES TO FINANCIAL STATEMENTS

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Form of Government

The Lakeville Fire Relief Association (the Association) was incorporated on October 8, 1943, and operates under the provisions of Minnesota State Statutes § 69 and 424, as amended. It is governed by a Board of Trustees consisting of six elected active firefighters and three ex-officio members who are officials of the City of Lakeville.

Reporting Entity

For financial reporting purposes, the Association's financial statements include all funds, departments, agencies, boards, commissions and other organizations over which the Association is considered to be financially accountable. No component units were combined with the Association's financial report and the Association is not combined with any other entity.

Basis of Presentation

The accompanying financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25, and GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Fund Accounting

The resources of the Association are accounted for in two funds:

Special Fund – This Fund is a pension trust 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 of Lakeville at amounts determined by law (taxes), and from the 2% insurance premium tax and amortization aid from the State of Minnesota.

General Fund – This Fund is a governmental fund, which accounts for the resources not accounted for in the Special Fund. It is used for the good and benefit of the Association as determined by Association bylaws. Its resources consist of fundraiser proceeds, investment earnings and miscellaneous sources.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Association.

Financial statements are provided for the General Fund. However, as this Fund is the only governmental activity of the Association and because no reconciling items exist between the two different bases of accounting described below, this Fund's statements are combined with the government-wide statements for presentation. Also, the Association's General Fund does not adopt a formal budget so no budget or actual comparison is shown either in the basic financial statements or as required supplementary information.

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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. For this purpose, the Association considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Deposits and Investments

The Association's cash represents cash on hand and demand deposits. Investments are stated at fair value.

Minnesota Statutes requires all deposits made by municipalities (which includes fire relief associations) with financial institutions are collateralized in an amount equal to 110% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance.

Minnesota Statutes authorizes the Association to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds and in the State Board of Investments.

The Association does not have formal policies in place to address custodial credit risk, interest rate risk, credit risk or concentration of credit risk for investments.

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of bank failure, the Association's deposits may not be returned to it.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial papers and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer.

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Receivable from State

Minnesota Statutes provide for the payment of supplemental benefits to retired members of the Association. These benefits are paid by the Association, which is reimbursed by the State of Minnesota by March 15 of the next calendar year. State supplemental aid is recognized in the period the funds are expended by the Association.

Actuarial Accrued Liability

The actuarial accrued liability has been calculated as of December 31, 2015 in accordance with GASB 67.

Use of Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Financial Information

Comparative total data for the prior year have been presented in the accompanying financial statements to provide an understanding of changes in the Association's financial position and operations.

NOTE 2 - CASH AND INVESTMENTS

Deposits

In accordance with applicable *Minnesota Statutes*, the Association maintains deposits at depository banks authorized by the Board of Trustees.

As of December 31, 2015, all of the Association's bank balance was not exposed to custodial credit risk because it was insured by FDIC insurance. The Association's deposits had a book balance as follows:

General Fund	\$ 17,518
Special Fund	<u>9,101</u>
Total Deposits	<u><u>\$ 26,619</u></u>

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Investments

As of December 31, 2015, the Association had the following investments:

	Credit Risk		Fair Value	Interest Risk Maturity Duration in Years		
	Rating	Agency		Less Than 1	1-5	More Than 5
Money Market Funds						
Wells Fargo Advantage	N/R	N/A	\$ 185,003	\$ 185,003	\$ -	\$ -
Certificates of Deposit	N/R	N/A	1,934,565	601,298	1,333,267	-
Federal Home Loan Mortgage Co.	AA+	S&P	99,810	-	99,810	-
GNMA	AA+	S&P	191,977	-	-	191,977
Corporate Bonds	AA-	S&P	208,212	-	208,212	-
Corporate Bonds	AA+	S&P	100,658	100,658	-	-
Corporate Bonds	A+	S&P	100,992	-	100,992	-
State Board of Investment						
Growth	N/R	N/A	2,117,536	2,117,536	-	-
Index Stock	N/R	N/A	2,128,923	2,128,923	-	-
International	N/R	N/A	390,217	390,217	-	-
Total Investments			<u>\$ 7,457,893</u>	<u>5,523,635</u>	<u>1,742,281</u>	<u>191,977</u>

Balances

The following is a summary of total deposits and investments:

Deposits	\$ 26,619
Investments	<u>7,457,893</u>
Total Deposits and Investments	<u>\$ 7,484,512</u>

Deposits and investments are presented in the December 31, 2015 basic financial statements as follows:

Statement of Net Assets - Balance Sheet -	
General Fund:	
Cash	\$ 17,518
Statement of Fiduciary Net Assets:	
Cash	9,101
Investments	<u>7,457,893</u>
Total	<u>\$ 7,484,512</u>

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Valuation of Investments

Investment income is recognized by the Association when it is earned. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Net appreciation (depreciation) in fair value of investments includes net unrealized and realized gains and losses. Purchases and sales of securities are recorded on a trade-date basis.

There are no investments in loans to, or leases with parties related to the pension plan.

Money-weighted Rate of Return

The money-weighted rate of return on pension plan assets was 0.53%.

NOTE 3 - PENSION PLAN AND CONTRIBUTION INFORMATION

Plan Description

Firefighters of the City are members of the Association. The Association is the administrator of a single-employer defined benefit pension plan available to firefighters that was established in 1972 and operates under the provisions of Minnesota Statutes Chapter 424A. The plan is governed by a board of six members elected by the members of the Association for three year terms. The City's Council Member, Finance Director and Fire Chief are ex officio members of the Board of Trustees. The plan is funded primarily by contributions from the City, 2% fire aid from the State of Minnesota and investment earnings.

Current Membership

At December 31, 2015, membership data related to the Association was as follows:

Retired members entitled to benefits but not yet receiving them	23
Active Plan Participants:	
Vested	5
Partially vested	38
Non-vested	34
	<hr/>
Total plan membership	100
	<hr/> <hr/>

Benefit Provisions

Authority for payment of pension benefits is established in Minnesota State Statute § 69.77 and may be amended only by the Minnesota State Legislature.

Twenty-Year Service Pension – Each member who is at least 50 years of age, has retired from the Fire Department, has served at least 20 years of active service with the department before retirement and has been a member of the Association in good standing at least seven years prior to retirement, shall be entitled to a lump

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

sum service pension in the amount of \$6,742 (effective January 1, 2015) for each year of service (including each year over 20), but not exceeding the maximum amount per year of service allowed by law for the minimum average amount of available financing per firefighter.

The Association's benefit amount will increase to \$6,877 for calendar year 2016.

Any member who retires after 20 years of service and is under the age of 50 is placed on the deferred pension roll. On March 30, 2009, the Association membership amended their bylaws which changed how interest is earned on a deferred member's retirement account. All moneys deferred prior to the amendment shall earn interest at five percent compounded annually. All moneys deferred after the amendment will be placed in a separate investment account and will earn interest at the current market rate actually earned on the account.

Seven-Year Service, But Less Than Twenty-Year Service – Each member who is at least 50 years of age; who has retired from the Fire Department; who has served at least seven years of active service with the department before retirement, but has not served at least 20 years of active service; and who has been a member of the Association in good standing at least seven years prior to retirement, shall be entitled to a pro-rated sum service pension based on the percentages in the following table:

For Duty of More Than Years	Less Than Years	Percent of Pension
7	8	48%
8	9	52%
9	10	56%
10	11	60%
11	12	64%
12	13	68%
13	14	72%
14	15	76%
15	16	80%
16	17	84%
17	18	88%
18	19	92%
19	20	96%
20	-	100%

The payment will be calculated by using the amount payable per year of service in effect at the time of such early retirement, multiplied by the number of accumulative years of service, multiplied by the appropriate percentage as defined above.

Death Benefit – Upon the death of any member in good standing, the Association will pay a death benefit equal to the full annual service pension amount for each year the member served.

Disability Benefits – In the event of total permanent disability incurred in the line of duty, a member shall be eligible to collect a disability benefit in an amount equal to his/her full years of active service on the Fire Department multiplied by the base sum pension benefit. The benefit is payable immediately upon approval by the Association regardless of age. For total permanent disability not incurred in the line of duty, a member shall be paid in accordance with the seven-year partial vesting provision described above.

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

State Supplemental Benefits – Minnesota Statutes provide for the payment of a supplemental benefit equal to 10 percent of a regular lump sum distribution up to a maximum of \$1,000.

NOTE 4 - NET PENSION LIABILITY OF THE ASSOCIATION

The components of the net pension liability of the Association at December 31, 2015, were as follows:

Total pension liability	4,829,007
Plan fiduciary net position	7,478,959
Association's net pension liability	(2,649,952)
Plan fiduciary net position as a percentage of the total pension liability	154.88%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	N/A
Investment rate of return	6.25% net of pension plan investment expense, including inflation

Mortality rates were based on the July 1, 2015 Minnesota PERA Police and Fire Plan actuarial valuation as described below:

Healthy Pre-retirement: RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 2 years, female rates set back 2 years.

Healthy Post-retirement: RP 2000 non-annuitant generational mortality, white collar adjustment, without age adjustment.

Disabled: RP 2000 healthy annuitant mortality table, white collar adjustment, set forward eight years for males and females.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2015 – December 31, 2015.

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if favorable) and by adding expected inflation. All results are then rounded to the nearest quarter percent.

<u>Asset Class</u>	<u>Expected Real Rate of Return</u>
Domestic equity	8.00%
International equity	8.00%
Fixed Income	4.50%
Real Estate	6.50%
Cash	3.00%
Total (weighted average, rounded to 1/4 percent)	6.36%
Reduced for assumed investment expense ⁽¹⁾	0.16%
Net assumed investment return (weighted ave, rounded to 1/4%)	<u>6.25%</u>

⁽¹⁾ Assumed investment expenses include both investment management fees and investment product fees (e.g. mutual funds).

Discount Rate. The discount rate used to measure the total pension liability was 6.25%. The liability discount rate was developed using the alternative method described in paragraph 43 of GASB 67, which states that “if the evaluations required by paragraph 41 can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan, alternative methods may be applied in making the evaluations.” We believe that the plan’s current overfunded status, combined with Minnesota statutory funding requirements, provide sufficient reliability that projected plan assets will be sufficient to pay future retiree benefits. Therefore, we have used the plan’s long-term expected return on plan assets as the liability discount rate.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Association, calculated using the discount rate of 6.25%, as well as what the Association’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

	<u>1% Decrease (5.25%)</u>	<u>Current Discount Rate (6.25%)</u>	<u>1% Increase (7.25%)</u>
Association's net pension liability	(2,498,012)	(2,649,952)	(2,796,475)

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5 - CONTRIBUTIONS

The Association's funding policy provides for contributions from the State of Minnesota and the City of Lakeville, in amounts sufficient to accumulate assets to pay benefits when due. The Volunteer Firefighters' Relief Association Financing Guidelines Act of 1971 (Chapter 261 as amended by Chapter 509 of Minnesota Statutes 1980) specifies minimum contributions required on an annual basis. The minimum support rates from the municipality and state aid are determined in the amount required to meet the normal cost based on a statutorily-approved method plus amortizing any existing prior year service costs over a ten-year period. The minimum contribution from the City of Lakeville and state aid is determined as follows:

Normal Cost based on a statutorily-approved method for the Next Year (Increase in Pension Benefit Obligation)
Plus Estimated Expenses for Next Year and 10% of Any Deficit
Less Anticipated Income Next Year and 10% of Any Surplus

Municipal contributions are determined by the preparation of Schedule SC, which must be certified to the City by August 1, of the preceding calendar year.

The state of Minnesota contributes amortization aid, or a 2% fire aid, in accordance with state statute requirements. Plan members are not required to contribute to the plan. The State Legislature may amend contribution requirements of the City and State.

Contributions totaling \$338,889 were made by the State of Minnesota, and none were made by the City of Lakeville, in accordance with state statute requirements for the year ended December 31, 2015.

NOTE 6 - OFFICIAL BONDS

The treasurer and secretary of the Association are each bonded by the City of Lakeville's Public Employee Faithful Performance coverage through the League of Minnesota Cities Insurance Trust in the amount of \$500,000.

III. REQUIRED SUPPLEMENTARY INFORMATION

LAKEVILLE FIRE RELIEF ASSOCIATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
For the Year Ended December 31, 2015

	<u>2015</u>	<u>2014</u>
Total Pension Liability (TPL)		
Service cost	223,785	217,796
Interest	269,493	263,122
Differences between expected and actual experience	-	-
Changes of assumptions	353,037	-
Changes of benefits terms	-	-
Benefit payments, including refunds of member contributions	<u>(210,816)</u>	<u>(559,140)</u>
Net change in total pension liability	635,499	(78,222)
Total Pension Liability - beginning of year ⁽¹⁾	4,193,508	4,271,730
Total Pension Liability - end of year	4,829,007	4,193,508
Plan Fiduciary Net Position (FNP, assets)		
Contributions - employer	338,889	379,542
Contributions - member	-	-
Net investment income	39,474	490,870
Benefit payments, including refunds of member contributions	(210,816)	(559,140)
Administrative expense	(11,292)	(11,398)
Other	<u>(40)</u>	<u>-</u>
Net change in plan fiduciary net position	156,215	299,874
Plan Fiduciary Net Position - beginning of year	7,322,744	7,022,870
Plan Fiduciary Net Position - end of year	7,478,959	7,322,744
Net Pension Liability (NPL)	(2,649,952)	(3,129,236)
FNP as a percentage of the TPL	154.88%	174.62%

⁽¹⁾ The January 1, 2014 results are estimated recalculations for transition purposes only. They do not reflect what was actually recognized on the FYE2013 financial statements.

The Association implemented the Provisions of Governmental Accounting Standards Board Statement No. 67 Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 for the year ended December 31, 2014. The schedules within the Required Supplementary Information section require a 10-year presentation, but does not require retro-active reporting. Information prior to 2014 is not available.

LAKEVILLE FIRE RELIEF ASSOCIATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NON-EMPLOYER CONTRIBUTING ENTITIES
For the Year Ended December 31, 2015

	December 31									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<u>Employer</u>										
Statutorily determined contribution (SDC)	\$ -	\$ -	\$ -	\$ 3,367	\$ 44,804	\$ 178,380	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the SDC	-	60,000	60,000	44,804	44,804	178,380	-	92,071	85,933	83,511
Contribution deficiency (excess)	\$ -	\$ 60,000	\$ 60,000	\$ 41,437	\$ -	\$ -	\$ -	\$ 92,071	\$ 85,933	\$ 83,511
<u>Non-Employer (State)</u>										
2% Aid	\$ 335,889	\$ 312,542	\$ 309,365	\$ 217,958	\$ 213,067	\$ 196,224	\$ 191,073	\$ 224,674	\$ 264,923	\$ 304,523

LAKEVILLE FIRE RELIEF ASSOCIATION
SCHEDULE OF INVESTMENT RETURNS
For the Year Ended December 31, 2015

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	0.53%	7.16%

The Association implemented the Provisions of Governmental Accounting Standards Board Statement No. 67 Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 for the year ended December 31, 2014. The schedules within the Required Supplementary Information section require a 10-year presentation, but does not require retro-active reporting. Information prior to 2014 is not available

IV. OTHER SUPPLEMENTARY INFORMATION

LAKEVILLE FIRE RELIEF ASSOCIATION
SCHEDULE OF REVENUE SOURCES -
SPECIAL PENSION TRUST FUND

<u>Years Ended December 31,</u>	<u>Municipal Contribution</u>	<u>State Contribution</u>	<u>Investment Earnings</u>
2006	\$ 83,511	\$ 304,523	\$ 383,941
2007	85,933	264,923	375,096
2008	92,071	224,674	(1,264,827)
2009	-	191,073	976,119
2010	178,380	196,224	560,847
2011	44,804	213,067	(93,663)
2012	44,804	217,958	420,119
2013	60,000	309,365	1,156,305
2014	60,000	312,542	490,870
2015	-	335,889	39,629
	<u>\$ 649,503</u>	<u>\$ 2,570,238</u>	<u>\$ 3,044,436</u>
	10.4%	41.0%	48.6%

V. OTHER REPORT



Minnesota Legal Compliance Independent Auditor's Report

Board of Trustees
Lakeville Relief Association
Lakeville, 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 Lakeville Fire Relief Association, Lakeville, Minnesota, as of and for the year ended December 31, 2015, and have issued our report thereon dated March 31, 2016.

The *Minnesota Legal Compliance Audit Guide for Relief Associations*, promulgated by the State Auditor pursuant to *Minnesota Statutes*, § 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 Lakeville Fire Relief 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.

Minneapolis, Minnesota
March 31, 2016

BerganKDV, Ltd.

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com