

Financial Report
For the Year Ended December 31, 2016

Lakeville Fire Relief Association



LAKEVILLE FIRE RELIEF ASSOCIATION

Table of Contents

	<u>Page</u>
I. INTRODUCTORY SECTION	
Board of Trustees and Officers	1
II. FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT.....	2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	5
BASIC FINANCIAL STATEMENTS	
Statement of Net Position and Governmental Fund Balance Sheet – General Fund	8
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance - General Fund	9
Statement of Fiduciary Net Position – Special Pension Trust Fund	10
Statement of Changes in Fiduciary Net Position – Special Pension Trust Fund	11
Notes to Financial Statements.....	12
III. REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in Net Pension Liability and Related Ratios.....	22
Schedule of Employer Contributions and Non-employer Contributing Entities	23
Schedule of Investment Returns	24
IV. OTHER INFORMATION	
Schedule of Revenue Sources – Special Pension Trust Fund	25
V. OTHER REPORT	
INDEPENDENT AUDITORS' REPORT ON LEGAL COMPLIANCE.....	26

I. INTRODUCTORY SECTION

LAKEVILLE FIRE RELIEF ASSOCIATION
BOARD OF TRUSTEES AND OFFICERS
DECEMBER, 31, 2016

<u>Officer</u>	<u>Position</u>	<u>Term Expires January</u>
Joe Huettl	President	2018
Bob Rinkenberger	Vice President	2018
Derrick Gaborski	Treasurer	2017
Jesse Nergard	Secretary	2019
Brian Jacobson	Trustee	2017
Tim Schwab	Trustee	2019
 <u>Ex-Officio</u>		
Bart Davis	City of Lakeville – Council Member	
Jerilyn Erickson	Finance Director	
Mike Meyer	Fire Chief	

II. FINANCIAL SECTION

INDEPENDENT AUDITORS' 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, the general fund, and the special pension trust fund of the Lakeville Fire Relief Association (the Association), as of and for the year ended December 31, 2016, 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

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.

Auditors' 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 auditors' 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 Opinions on Governmental Activities and the General Fund

The Association has not established procedures to provide assurance that all general fund revenues are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such revenues beyond the amounts recorded.

Qualified Opinions on Governmental Activities and the General Fund

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinions on Governmental Activities and the General Fund” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the general fund of the Association, as of December 31, 2016, 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.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Special Pension Trust Fund of the Association as of December 31, 2016, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

Other auditors have previously audited the Lakeville Fire Relief Association’s 2015 financial statements and expressed a qualified opinion on the respective financial statements of the governmental activities and the major fund and expressed an unmodified opinion on the Special Pension Trust Fund in their report dated March 31, 2016. The summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis, the schedule of changes in net pension liability and related ratios, the schedule of employer contributions and non-employer contributing entities, and schedule of investment returns as listed on the table of contents 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.

Board of Trustees
Lakeville Fire Relief Association

Other Matters (Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lakeville Fire Relief Association's basic financial statements. The Schedule of Revenue Sources – Special Pension Trust Fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Revenue Sources – Special Pension Trust Fund has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 7, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LAKEVILLE FIRE RELIEF ASSOCIATION
LAKEVILLE, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

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, 2016. 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, 2016 amounted to \$17,150, which is a decrease from 2015 of \$344.

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

	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
REVENUES:			
Investment income	\$ 2	\$ 2	\$ -
Donations	1,894	9,643	(7,749)
Fundraising	<u>15,422</u>	<u>11,697</u>	<u>3,725</u>
Total revenues	<u>17,318</u>	<u>21,342</u>	<u>(4,024)</u>
EXPENSES/EXPENDITURES:			
Fundraising	10,192	6,935	3,257
Donations	1,241	5,342	(4,101)
Other	<u>6,229</u>	<u>8,701</u>	<u>(2,472)</u>
Total expenses/expenditures	<u>17,662</u>	<u>20,978</u>	<u>(3,316)</u>
Excess (deficiency) of revenues			
Over (under) expenses/expenditures	(344)	364	(708)
Net position/fund balance - January 1	<u>17,494</u>	<u>17,130</u>	<u>364</u>
Net position/fund balance - December 31	<u>\$ 17,150</u>	<u>\$ 17,494</u>	<u>\$ (344)</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, 2016, the Association’s net position (\$7,821,651) exceeded the actuarial calculated pension liabilities (\$4,678,115) by \$3,143,536, thereby resulting in the funded ratio of 167.20%.

The net position of the Special Fund administered by the Association was \$7,821,651 which is an increase of \$342,692 during the 2016 fiscal year.

Contributions to the fund for the year were \$899,750, comprised of state aid for fire relief (\$342,276), state supplemental aid (\$6,000) and investment income (\$551,474).

Fund deductions increased primarily due to pension payments of \$547,241 in 2016. Total deductions for pension and administrative expenses increased from \$222,148 in 2015 to \$557,058 in 2016.

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

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, 2016, were \$7,821,651 which is comprised primarily of investments. Total assets increased \$342,692 or 4.6 percent from fiscal year 2015.

Association assets exceeded its liabilities at the close of fiscal year 2016 by \$7,821,651. Total net position increased \$342,692 or 4.6 percent between fiscal years 2015 and 2016.

FIDUCIARY NET POSITION - SPECIAL PENSION TRUST FUND

	2016	2015	Increase (Decrease)
ASSETS			
Cash	\$ 4,978	\$ 9,101	\$ (4,123)
Receivables/Prepays	16,383	11,965	4,418
Investments	7,800,290	7,457,893	342,397
Total assets	<u>7,821,651</u>	<u>7,478,959</u>	<u>342,692</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net position	<u>\$ 7,821,651</u>	<u>\$ 7,478,959</u>	<u>\$ 342,692</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 2016 totaled \$899,750 which is a \$521,387 increase from 2015.

State aid for fire relief increased from \$338,889 in 2015 to \$348,276. There were no municipal contributions in 2016 or 2015. Investment revenue amounted to \$551,474 as a result of improved market conditions compared to \$39,474 in 2015.

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 2016 were \$557,058, which is an increase of \$334,910 from fiscal year 2015. Administrative expenses remained fairly consistent with the previous year.

CHANGES IN FIDUCIARY NET POSITION - SPECIAL PENSION TRUST FUND

	Year Ended December 31,		Increase
	2016	2015	(Decrease)
ADDITIONS			
State aid	\$ 348,276	\$ 338,889	\$ 9,387
Net investment income	551,474	39,474	512,000
Total additions	899,750	378,363	521,387
DEDUCTIONS			
Benefits and refunds paid to participants	547,241	210,816	336,425
Administrative expenses	9,817	11,332	(1,515)
Total deductions	557,058	222,148	334,910
Net increase/(decrease)	\$ 342,692	\$ 156,215	\$ 186,477

The Association as a Whole

The Association's net position has experienced an increase as a result of favorable investment returns as compared to fiscal year 2015. Investments are invested 66% with the Minnesota State Board of Investment and 34% 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, 2016

ASSETS:	
Cash and investments	\$ 16,663
Accounts receivable	100
Prepaid items	500
Total assets	\$ 17,263
 LIABILITIES AND EQUITY:	
Liabilities	
Accounts payable	\$ 113
 Equity	
Fund Balance - nonspendable for prepaid items	500
Fund balance - unassigned	16,650
Net position - unrestricted/total fund balance	17,150
Total liabilities and equity	\$ 17,263

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, 2016

REVENUES:

Investment income	\$	2
Donations		1,894
Fundraising		15,422
Total revenues		17,318

EXPENSES/EXPENDITURES:

Fundraising		10,192
Donations		1,241
Other		6,229
Total expenses/expenditures		17,662

Excess (deficiency) of revenues		
Over (under) expenses/expenditures		(344)

Net position/fund balance - January 1		17,494
---------------------------------------	--	--------

Net position/fund balance - December 31	\$	17,150
---	----	--------

LAKEVILLE FIRE RELIEF ASSOCIATION
STATEMENT OF FIDUCIARY NET POSITION - SPECIAL PENSION TRUST FUND
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE AMOUNTS FOR 2015)

	2016	2015
ASSETS:		
Cash	\$ 4,978	\$ 9,101
Investments:		
Government obligations	251,502	291,786
Corporate bonds	559,143	409,862
Certificates of deposit	1,746,495	1,934,565
Mutual funds	102,822	185,003
State Board of Investment		
Growth	2,339,827	2,117,536
Index stock	2,399,961	2,128,924
International	400,540	390,217
Total investments	7,800,290	7,457,893
Due from other governmental units	6,000	3,000
Interest receivable	10,383	8,965
Total assets	7,821,651	7,478,959
LIABILITIES:		
Salaries/accounts payable	-	-
NET POSITION:		
Restricted for pensions	\$ 7,821,651	\$ 7,478,959

LAKEVILLE FIRE RELIEF ASSOCIATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – SPECIAL PENSION TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE AMOUNTS FOR 2015)

	2016	2015
ADDITIONS:		
Contributions:		
State fire aid	\$ 342,276	\$ 335,889
State supplemental aid	6,000	3,000
Total contributions	348,276	338,889
Investment income:		
Interest and dividend earnings	38,510	38,528
Net appreciation/(depreciation) in fair value of investments	513,318	1,101
Subtotal	551,828	39,629
Less: Investment management fees	(354)	(155)
Total investment income	551,474	39,474
 TOTAL ADDITIONS	 899,750	 378,363
DEDUCTIONS:		
Administrative wages and payroll taxes	5,167	5,167
Pension benefits	547,241	210,816
Professional fees	4,650	6,125
Other	-	40
TOTAL DEDUCTIONS	557,058	222,148
NET INCREASE/(DECREASE)	342,692	156,215
NET POSITION RESTRICTED FOR PENSIONS, JANUARY 1	7,478,959	7,322,744
NET POSITION RESTRICTED FOR PENSIONS, DECEMBER 31	\$ 7,821,651	\$ 7,478,959

NOTES TO FINANCIAL STATEMENTS

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016

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 their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provide that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid investments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment pools are valued at net asset value per share.

Minnesota Statutes requires all deposits made by municipalities (which includes fire relief associations) with financial institutions to be 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 State Board of Investments is an external investment pool which is governed by Minnesota Statute Chapter 356A as well as other standards.

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.

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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

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, 2016 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

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's prior year financial statements.

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, 2016, 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	\$ 16,663
Special Fund	<u>4,978</u>
Total deposits	<u>\$ 21,641</u>

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

Investments

Fair Value Measurements

The Association uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Association follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

In accordance with this standard, the Association has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured a fair value on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Brokered Certificates of Deposit	\$ -	\$ 1,746,495	\$ -	\$ 1,746,495
Government Agencies	251,502	-	-	251,502
Corporate Bonds	-	559,143	-	559,143
SBI - Broad international stock fund	400,540	-	-	400,540
SBI - U.S. Stock Actively Managed Fund	2,339,827	-	-	2,339,827
SBI - U.S. Stock Index Fund	2,399,961	-	-	2,399,961
	<u>\$ 5,391,830</u>	<u>\$ 2,305,638</u>	<u>\$ -</u>	<u>\$ 7,697,468</u>

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

As of December 31, 2016, 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	\$ 102,822	\$ 102,822	\$ -	\$ -
Certificates of deposit	N/R	N/A	1,746,495	350,940	1,395,555	-
Federal Home Loan Mortgage Co.	AA+	S&P	100,061	100,061	-	-
GNMA	AA+	S&P	151,441	-	-	151,441
Corporate bonds	AA-	S&P	254,088	100,013	154,075	-
Corporate bonds	A	S&P	153,756	100,283	53,473	-
Corporate bonds	A+	S&P	151,299	-	151,299	-
State Board of Investment						
Growth	N/R	N/A	2,339,827	2,339,827	-	-
Index stock	N/R	N/A	2,399,961	2,399,961	-	-
International	N/R	N/A	400,540	400,540	-	-
Total investments			<u>\$ 7,800,290</u>	<u>5,894,447</u>	<u>1,754,402</u>	<u>151,441</u>

Balances

The following is a summary of total deposits and investments:

Deposits	\$ 21,641
Investments	<u>7,800,290</u>
Total deposits and investments	<u>\$ 7,821,931</u>

Deposits and investments are presented in the December 31, 2016 basic financial statements as follows:

Statement of net assets - balance sheet -	
General Fund:	
Cash	\$ 16,663
Statement of fiduciary net position:	
Cash	4,978
Investments	<u>7,800,290</u>
Total	<u>\$ 7,821,931</u>

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 7.61%.

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, 2016, membership data related to the Association was as follows:

Retired members entitled to benefits but not yet receiving them	20
Active plan participants:	
Vested	3
Partially vested	36
Non-vested	38
	<hr/>
Total plan membership	97
	<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, 2016

sum service pension in the amount of \$6,877 (effective January 1, 2016) 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 \$7,225 for calendar year 2017.

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, 2016

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, 2016, were as follows:

Pension liability - active members	\$	2,965,035
Pension liability - inactive members		1,713,080
Total pension liability		4,678,115
Plan fiduciary net position		7,821,651
Association's net pension liability	\$	(3,143,536)
Plan fiduciary net position as a percentage of the total pension liability		167.20%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%	
Salary increases	N/A	
Investment rate of return	7.25%	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 projected with scale AA, white collar adjustment, male rates set back 2 years, female rates set back 2 years.

Healthy Post-retirement: RP 2000 annuitant generational mortality projected with scale AA, 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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2016 – December 31, 2016.

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 available) and by adding expected inflation (2.75%). All results are then rounded to the nearest quarter percent.

Asset Class	Long-Term Expected Real Rate of Return¹
Domestic equity	8.33%
International equity	8.46%
Fixed income	5.02%
Real estate and alternatives	7.19%
Cash and equivalents	3.59%
Total (weighted average) ⁽²⁾	7.24%
Reduced for assumed investment expense ⁽³⁾	0.10%
Net assumed investment return (weighted ave, rounded to 1/4%)	7.25%

⁽¹⁾ *Nominal rates of return are equal to real rates of return plus the assumed inflation rate.*

⁽²⁾ *Portfolio total expected return is weighted average of arithmetic asset class returns, with adjustment to reflect geometric averages. It is not equal to the weighted average of the asset class geometric returns shown above.*

⁽³⁾ *Assumed investment expense included investment management fees.*

Discount Rate. The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Association's net pension liability	(2,979,288)	(3,143,536)	(3,301,420)

LAKEVILLE FIRE RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 \$348,276 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, 2016.

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, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY (TPL)			
Service cost	270,846	223,785	217,796
Interest	301,640	269,493	263,122
Differences between expected and actual experience	(201,242)	-	-
Changes of assumptions	(161,264)	353,037	-
Changes of benefits terms	186,369	-	-
Benefit payments, including refunds of member contributions	(547,241)	(210,816)	(559,140)
Net change in total pension liability	<u>(150,892)</u>	<u>635,499</u>	<u>(78,222)</u>
Total Pension Liability - beginning of year ⁽¹⁾	4,829,007	4,193,508	4,271,730
Total Pension Liability - end of year	4,678,115	4,829,007	4,193,508
PLAN FIDUCIARY NET POSITION (FNP, ASSETS)			
Contributions - employer	348,276	338,889	379,542
Net investment income	551,474	39,474	490,870
Benefit payments, including refunds of member contributions	(547,241)	(210,816)	(559,140)
Administrative expense	(9,817)	(11,292)	(11,398)
Other	-	(40)	-
Net change in plan fiduciary net position	<u>342,692</u>	<u>156,215</u>	<u>299,874</u>
Plan Fiduciary Net Position - beginning of year	7,478,959	7,322,744	7,022,870
Plan Fiduciary Net Position - end of year	7,821,651	7,478,959	7,322,744
NET PENSION LIABILITY (NPL)	(3,143,536)	(2,649,952)	(3,129,236)
FNP as a percentage of the TPL	167.20%	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, 2016

	December 31									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
EMPLOYER										
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
Contribution deficiency (excess)	\$ -	\$ -	\$ 60,000	\$ 60,000	\$ 41,437	\$ -	\$ -	\$ -	\$ 92,071	\$ 85,933
NON-EMPLOYER (STATE)										
2% Aid	\$ 342,276	\$ 335,889	\$ 312,542	\$ 309,365	\$ 217,958	\$ 213,067	\$ 196,224	\$ 191,073	\$ 224,674	\$ 264,923

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	7.61%	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 INFORMATION

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

<u>Years Ended December 31,</u>	<u>Municipal Contribution</u>	<u>State Contribution *</u>	<u>Investment Earnings</u>
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	39,474
2016	-	342,276	551,474
	<u>\$ 565,992</u>	<u>\$ 2,607,991</u>	<u>\$ 3,211,814</u>
	8.9%	40.8%	50.3%

* Excludes the supplemental state aid.

V. OTHER REPORT



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Trustees
Lakeville Fire Relief Association
Lakeville, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, the general fund and the special pension trust fund of the Lakeville Fire Relief Association (the Association), as of and for the year ended December 31, 2016 and the related notes to the financial statements which collectively comprise the Association's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 7, 2017. Our opinion was qualified because the Association has not established procedures to provide assurance that all general fund revenues are recorded in the financial records.

The *Minnesota Legal Compliance Audit Guide for Relief Associations*, promulgated by the State Auditor pursuant to Minn Stat. § 6.65, contains two categories of compliance to be tested: deposits and investments, and relief associations. Our audit considered all of the listed categories.

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 relief association's noncompliance with the above-referenced provisions; insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota legal Compliance Audit Guide for Relief Associations* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 7, 2016