



# Financial Statements and Required Supplementary Information

## Prior Lake Fire Relief Association

Prior Lake, Minnesota

Year ended December 31, 2020



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Prior Lake Fire Relief Association  
Prior Lake, Minnesota  
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December 31, 2020

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INTRODUCTORY SECTION  
PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2020

Prior Lake Fire Relief Association  
Prior Lake, Minnesota  
Organization  
Year Ended December 31, 2020

<u>Name</u>		<u>Title</u>
	<b>Officers</b>	
Tyler Braatz		President
Ryan Van Curler		Vice President
Anthony Adderley		Secretary
Jason Koski		Treasurer
	<b>General Trustees</b>	
Michael Kilonowski		Trustee
Paul Yttreiness		Trustee
	<b>Ex Officio Members</b>	
Kurt Briggs		Mayor
Jason Wedel		City Manager
Eric Steinhaus		Fire Chief

FINANCIAL SECTION  
PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2020

## 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, 2020, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Summary of Opinions

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

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

The Association uses the State Schedule Form for Lump-Sum Pension Plans as a basis for the calculation of the pension liability. This calculation differs from an Actuarial calculation that is required by Governmental Accounting Standards Board (GASB) Statement No. 67. We were unable to obtain sufficient audit evidence to ensure that the pension liability is materially stated in accordance with GASB Statement No. 67. Therefore GASB Statement No.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, 2020, 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, 2020, 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 8 and the Required Supplementary Information on page 27 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**  
Mankato, Minnesota  
October 27, 2021



## **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, 2020.

### **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 16) and the Statement of Changes in Fiduciary Net Position (see page 17). 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 decreased by \$43,723 (or 0.9 percent) as a result of the fiscal year's activities.
- The required contribution from the State of Minnesota (the State) increased by \$17,624 (or 6.3 percent). There was a voluntary contribution of \$20,000 from the City.
- Net investment income decreased by \$328,741 from fiscal year 2019.
- Accrued pension liability decreased by \$296,829 (or 6.9 percent) over the prior year. This decrease is due to normal costs offset by pension payouts of \$658,375.
- The Governmental fund's fund balance increased by \$7,978 (or 34.9 percent) as a result of the fiscal year's activities. The fund balance of the Governmental fund at year end was \$30,811.



## Plan Highlights

The Plan's funding level increased from 113.7 percent to 120.9 percent.

## Plan Net Position

	December 31	
	2020	2019
Cash and Cash Equivalents	\$ 24,600	\$ 464,365
Investments	4,843,980	4,450,938
Receivables	4,000	1,000
Net Position Restricted for Pension Benefits	<u>\$ 4,872,580</u>	<u>\$ 4,916,303</u>

For the current fiscal year 2020 there is a net decrease of \$43,723 (or 0.9 percent) from the previous fiscal year 2019. The previous fiscal year 2019 had a net increase of \$725,935 (or 17.3 percent) from fiscal year 2018. The increase and decrease 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	
	2020	2019
Additions		
Contributions	\$ 271,275	\$ 253,651
Investment income	357,043	685,784
Total Additions	<u>628,318</u>	<u>939,435</u>
Deductions		
Benefit payments, lump sum	658,375	213,500
Administrative expenses	13,666	-
Total Deductions	<u>672,041</u>	<u>213,500</u>
Net Increase (Decrease) in Net Position	(43,723)	725,935
Net Position Restricted for Pensions		
Beginning of Year	<u>4,916,303</u>	<u>4,190,368</u>
End of Year	<u>\$ 4,872,580</u>	<u>\$ 4,916,303</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

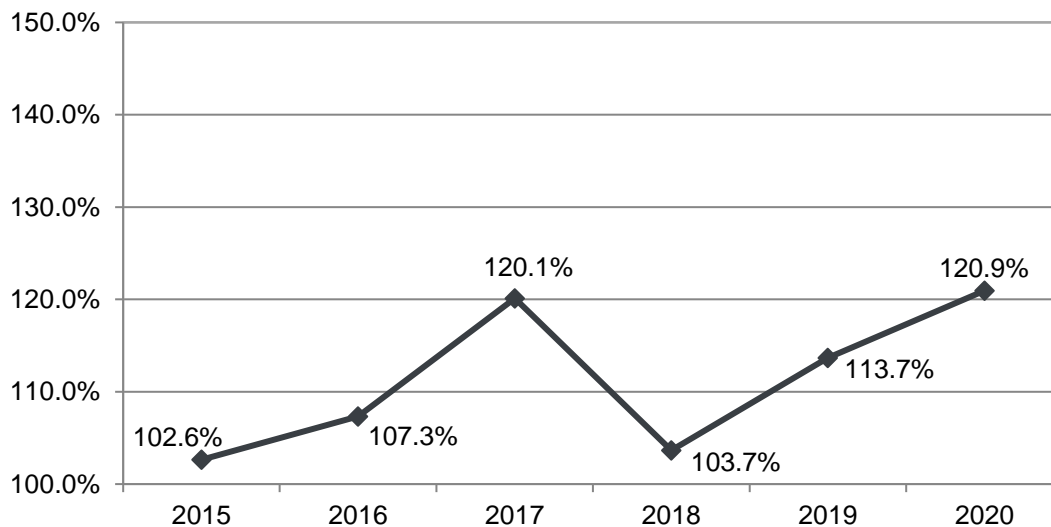
The following table reflects the Association's Plan membership as of the beginning and ending of the year:

	December 31	
	2020	2019
Active Participants		
Vested	18	17
Nonvested	24	24
Retirees and Beneficiaries	12	13
Total Membership	<u>54</u>	<u>54</u>

## Funding Status

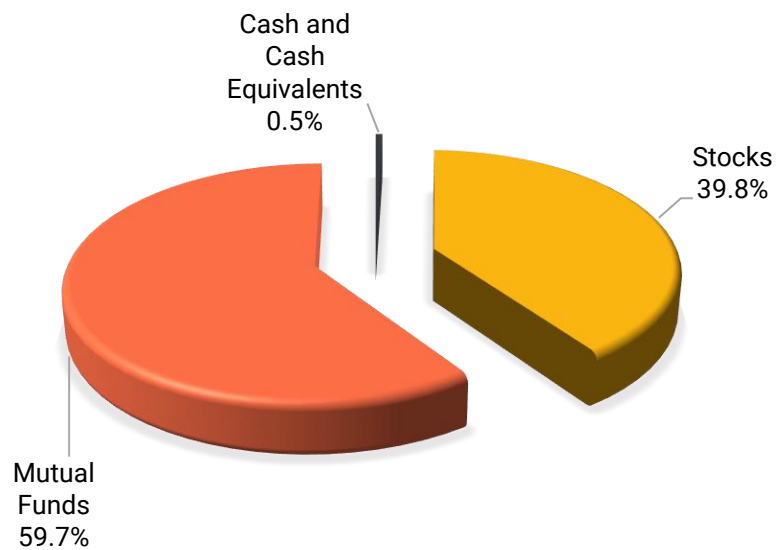
The amount of the total accrued pension liability is based on a standardized measurement established by the Governmental Accounting Standards Board (GASB) that, with some exceptions, must be used by the relief associations for financial statement presentations. This standardized measurement is based 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, 2020 and 2019:

	December 31			
	2020		2019	
Cash and Cash Equivalents	\$ 24,600	0.5 %	\$ 464,365	9.4 %
Stocks	1,937,744	39.8	1,873,375	38.1
Government Bonds	-	-	718,744	14.7
Mutual Funds	2,906,236	59.7	1,858,819	37.8
<b>Total Cash and Investments</b>	<b>\$ 4,868,580</b>	<b>100.0 %</b>	<b>\$ 4,915,303</b>	<b>100.0 %</b>



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

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

	December 31	
	2020	2019
Revenues		
Fundraising activities	\$ 20,302	\$ 39,670
Outside donations	750	3,092
Investment income	2	2
Total Revenues	21,054	42,764
Expenditures		
Conventions and meetings	1,115	3,089
Dues	-	307
Flowers and gifts	-	1,614
Fundraising	7,936	25,303
Member recognition	-	4,107
Donations	400	50
Advertising and promotion	-	507
Equipment and supplies	342	7,813
Professional fees	98	1,466
Salaries	2,167	-
Miscellaneous	1,018	539
Total Expenditures	13,076	44,795
Net Change in Fund Balances/Net Position	7,978	(2,031)
Fund Balances/Net Position, January 1	22,833	24,864
Fund Balances/Net Position, December 31	\$ 30,811	\$ 22,833

### 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 2020 on a relative basis to benchmarks was favorable, and the real positive return of 7.3 percent was above the long-term net 5.0 percent target for the year. These higher 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.

BASIC FINANCIAL STATEMENTS  
PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2020

Prior Lake Fire Relief Association  
Prior Lake, Minnesota  
Governmental Fund Balance Sheet/  
Statement of Net Position  
December 31, 2020

Assets	
Cash and Cash Equivalents	<u>\$ 30,811</u>
Fund Balance/Net Position	
Unrestricted/Unassigned	<u>\$ 30,811</u>

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, 2020

Revenues	
Fundraising activities	\$ 20,302
Outside donations	750
Interest income	2
Total Revenues	21,054
Expenditures	
Conventions and meetings	1,115
Fundraising	7,936
Donations	400
Equipment and supplies	342
Professional fees	98
Salaries	2,167
Miscellaneous	1,018
Total Expenditures	13,076
Net Change in Fund Balance/Net Position	7,978
Fund Balance/Net Position, January 1	22,833
Fund Balance/Net Position, December 31	\$ 30,811

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, 2020

Assets	
Cash and cash equivalents	\$ 24,600
Investments	4,843,980
Due from other governments	<u>4,000</u>
Net Position	
Restricted for Pension Benefits	<u><u>\$ 4,872,580</u></u>

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



**Prior Lake Fire Relief Association**  
 Prior Lake, Minnesota  
 Statement of Changes in Fiduciary Net Position  
 Fiduciary Fund - Special Pension Trust Fund  
 Year Ended December 31, 2020

Additions	
Contributions	
State of Minnesota	
2 percent insurance premium tax	\$ 247,275
10 percent supplemental reimbursement	4,000
City of Prior Lake	20,000
Total Contributions	<u>271,275</u>
Investment earnings	
Interest and dividends	139,013
Appreciation in fair value of investments	251,237
Less: investment fees	(33,207)
Total Investment Income	<u>357,043</u>
Total Additions	<u>628,318</u>
Deductions	
Benefits	
Pension benefits	658,375
Administrative expenses	
Professional fees	13,655
Other expenses	11
Total Deductions	<u>672,041</u>
Net Decrease in Net Position	(43,723)
Net Position Restricted for Pensions	
Beginning of year	<u>4,916,303</u>
End of Year	<u>\$ 4,872,580</u>

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

**Prior Lake Fire Relief Association**  
 Prior Lake, Minnesota  
 Notes to the Financial Statements  
 December 31, 2020

**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, 2020, 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	18
Nonvested	24
	24
Total	54

Prior Lake Fire Relief Association  
 Prior Lake, Minnesota  
 Notes to the Financial Statements  
 December 31, 2020

**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, \$8,500 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 \$8,500 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 \$8,500 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, 2020

**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, 2020

**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, 2020, 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 1899.

**E. 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.

Prior Lake Fire Relief Association  
 Prior Lake, Minnesota  
 Notes to the Financial Statements  
 December 31, 2020

**Note 3: Detailed Notes on Accounts**

**A. 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 fair 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, 2020:

Fund	Book	Bank
Governmental Fund	\$ 30,811	\$ 32,027
Special Pension Trust Fund	\$ 24,600	\$ 24,600

Prior Lake Fire Relief Association  
 Prior Lake, Minnesota  
 Notes to the Financial Statements  
 December 31, 2020

**Note 3: Detailed Notes on Accounts (Continued)**

**B. Investments**

The Association categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Association has the following recurring fair value measurements as of December 31, 2020.

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Amount	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled Investments at Amortized Costs						
Broker money markets	N/A	Less than 6 months	\$ 216,153	\$ -	\$ -	\$ -
Pooled Investments at Fair Value						
Mutual funds	N/A	N/A	2,690,083	2,690,083	-	-
Total pooled investments			<u>2,906,236</u>	<u>2,690,083</u>	<u>-</u>	<u>-</u>
Non-Pooled Investments at Fair Value						
Domestic stock	N/A	N/A	1,714,559	1,714,559	-	-
International stock	N/A	N/A	223,185	223,185	-	-
Total Non-Pooled Investments			<u>1,937,744</u>	<u>1,937,744</u>	<u>-</u>	<u>-</u>
Total Investments			<u>\$ 4,843,980</u>	<u>\$ 4,627,827</u>	<u>\$ -</u>	<u>\$ -</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.

Mutual funds of \$2,690,083 are valued using closing market prices as reported by the fund. Mutual funds held by the Association consists of open-end and closed-end funds. The open-end mutual funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Association are deemed to be actively traded (Level 1 Inputs).

Domestic stock of \$1,714,559 and International stock of \$223,185 are valued using closing market prices (Level 1 inputs).

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, 2020

**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:

Asset Class	Target Allocation	Acceptable Variance
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 424A.092. 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, 2020

**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 \$251,275 was made by the State (including \$4,000 supplemental benefit) in accordance with Minnesota statute requirements for the year ended December 31, 2020. 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 October 27, 2021, the date which the financial statements were available to be issued.

**Note 8: COVID-19**

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus ("COVID-19") and the risks to the international community as virus spreads globally. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. In response to the pandemic, the State of Minnesota has issued stay-at-home orders and other measures aimed at slowing the spread of the coronavirus.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Due to the rapid development and fluidity of this situation, the Relief cannot determine the ultimate impact that the COVID-19 pandemic will have on its financial condition, liquidity, and future revenue collection, and therefore any prediction as to the ultimate impact on the Relief's financial condition, liquidity, and future results of its revenue collections is uncertain.

REQUIRED SUPPLEMENTARY INFORMATION

PRIOR LAKE FIRE RELIEF ASSOCIATION  
PRIOR LAKE, MINNESOTA

YEAR ENDED  
DECEMBER 31, 2020

Prior Lake Fire Relief Association  
 Prior Lake, Minnesota  
 Required Supplementary Information  
 December 31, 2020

**A. Schedule of Funding Progress**

Valuation Date	Value of Assets	Accrued Liability	Excess of (Unfunded) Accrued Liability	Funded Rate	Benefit per Year of Service
12/31/20	\$ 4,872,580	\$ 4,028,803	\$ 843,777	120.9 %	\$ 8,500
12/31/19	4,916,303	4,325,632	590,671	113.7	8,500
12/31/18	4,190,368	4,042,147	148,221	103.7	8,000
12/31/17	4,898,617	4,078,166	820,451	120.1	7,200
12/31/16	4,229,942	3,941,370	288,572	107.3	7,100
12/31/15	3,716,803	3,621,274	95,529	102.6	7,100

**B. Schedule of Employer Contributions**

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
12/31/20	\$ 271,275	100.0 %
12/31/19	253,651	100.0
12/31/18	247,610	100.0
12/31/17	237,182	100.0
12/31/16	235,891	100.0
12/31/15	228,087	100.0

**C. Notes to the Required Supplementary Information**

Valuation Date	12/31/20
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, 2020

**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, 2020, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements and have issued our report thereon dated October 27, 2021.

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 deposits and investments of the *Minnesota Legal Compliance Audit Guide for Relief Associations, promulgated by the State Auditor* except as described in the Schedule of Finding 2020-1. 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, insofar as they relate to accounting matters.

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**  
Mankato, Minnesota  
October 27, 2021

Prior Lake Fire Relief Association  
Prior Lake, Minnesota  
Schedule of Finding  
December 31, 2020

<b><u>Finding</u></b>	<b><u>Description</u></b>
<b>2020-1</b>	<b>Supporting Documentation of Expenditures</b>
<i>Condition:</i>	During our audit we selected 7 expenditures for testing; the Association does not have adequate documentation to support 2 of the expenditures selected.
<i>Criteria:</i>	The Association does not have procedures in place for tracking expenditures with no receipt for purchase.
<i>Cause:</i>	We received no documentation for the items selected for testing; the officers did not monitor expenditure documentation to support expense paid.
<i>Effect:</i>	The Association is out of compliance with state statute 15.17.subd 1.
<i>Recommendation:</i>	We recommend the Association retain appropriate documentation and approval of all disbursements.
<i>Management Response:</i>	
	The officers of the board are aware of this oversight and will implement our recommendation to ensure all expenditures have supported documentation.



# Management Letter

## Prior Lake Fire Relief Association

Prior Lake, Minnesota

For the year ended December 31, 2020



### *Edina Office*

5201 Eden Avenue, Ste 250

Edina, MN 55436

**P** 952.835.9090

**F** 952.835.3261

### *Mankato Office*

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October 27, 2021

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, 2020, and have issued our report thereon dated October 27, 2021. 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, 2020, 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 2020-2 to be a significant deficiency in internal control over financial reporting.



<i>Condition:</i>	As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. 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.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	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.
<i>Effect:</i>	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.
<i>Recommendation:</i>	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.
<i>Management Response:</i>	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 one instance of noncompliance with Minnesota Statutes.

### 2020-1 Supporting Documentation of Expenditures

*Condition:* During our audit we selected 7 expenditures for testing; the Association does not have adequate documentation to support 2 of the expenditures selected.

*Criteria:* The Association does not have procedures in place for tracking expenditures with no receipt for purchase.

*Cause:* We received no documentation for the items selected for testing; the officers did not monitor expenditure documentation to support expense paid.

*Effect:* The Association is out of compliance with state statute 15.17.subd 1.

*Recommendation:* We recommend the Association retain appropriate documentation and approval of all disbursements.

#### *Management Response:*

The officers of the board are aware of this oversight and will implement our recommendation to ensure all expenditures have supported documentation.

### 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 were 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 October 27, 2021.

### **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, 2020.



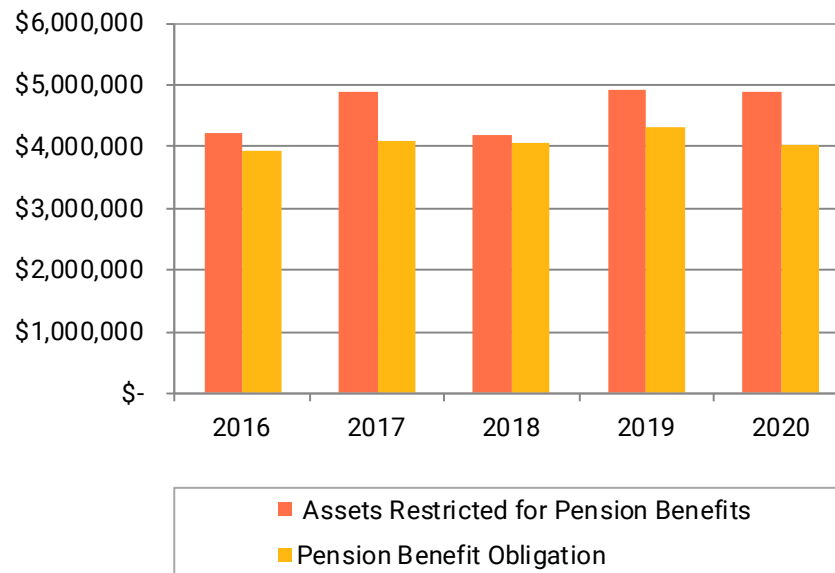
## Financial Position

### 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
2016	\$ 4,229,942	\$ 3,941,370	107.3 %	\$ 288,572
2017	4,898,617	4,078,166	120.1	820,451
2018	4,190,368	4,042,147	103.7	148,221
2019	4,916,303	4,325,632	113.7	590,671
2020	4,872,580	4,028,803	120.9	843,777

### Assets and Pension Benefit Obligation

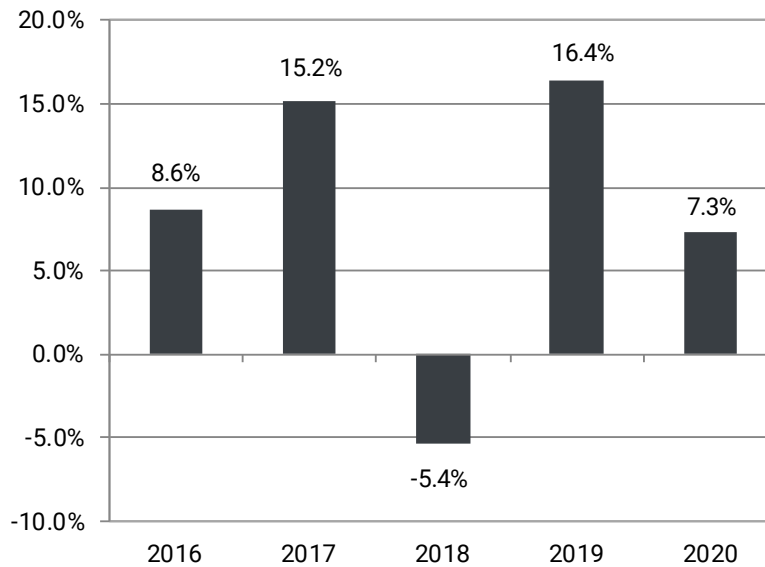


## Rates of Return

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
2016	\$ 115,449	\$ 237,252	\$ (31,890)	\$ 320,811	\$ 4,229,942	8.6 %
2017	117,466	561,557	(38,037)	640,986	4,898,617	15.2
2018	124,956	(349,705)	(37,435)	(262,184)	4,190,368	(5.4)
2019	110,968	610,162	(35,346)	685,784	4,916,303	16.4
2020	139,013	251,237	(33,207)	357,043	4,872,580	7.3

### 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.

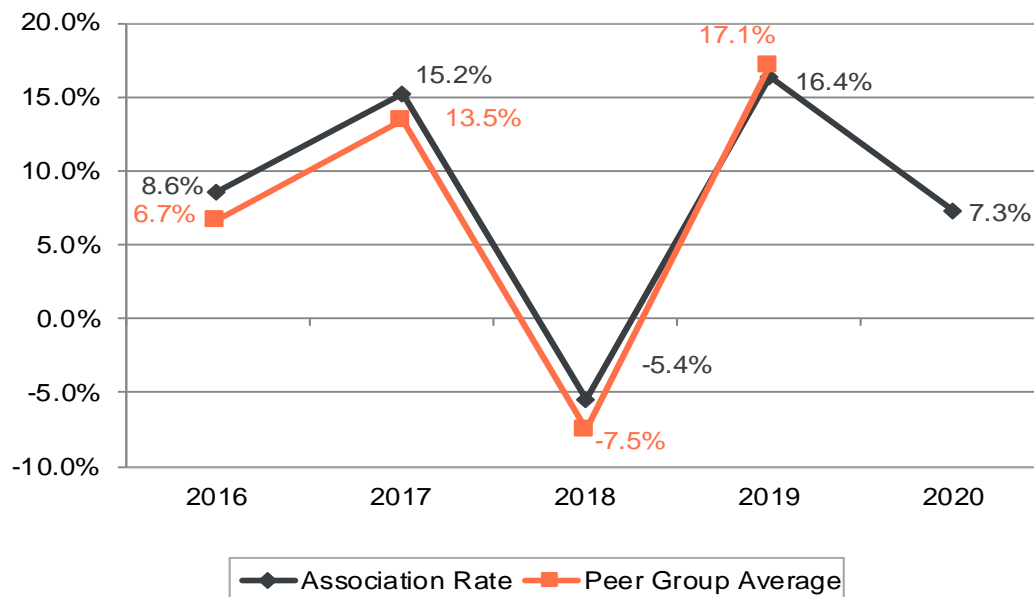
Averages	Calculation	2016	2017	2018	2019	2020
Average Rate of Returns	Net Investment Income/Beginning Assets	8.6%	15.2%	-5.4%	16.4%	7.3%
		6.7%	13.5%	-7.5%	17.1%	N/A
Percentage Funded	Assets/Accrued Liability	107.3%	120.1%	103.7%	113.7%	120.9%
		111.6%	123.1%	108.5%	120.0%	N/A

Prior Lake Fire Relief Association

*Peer Group*

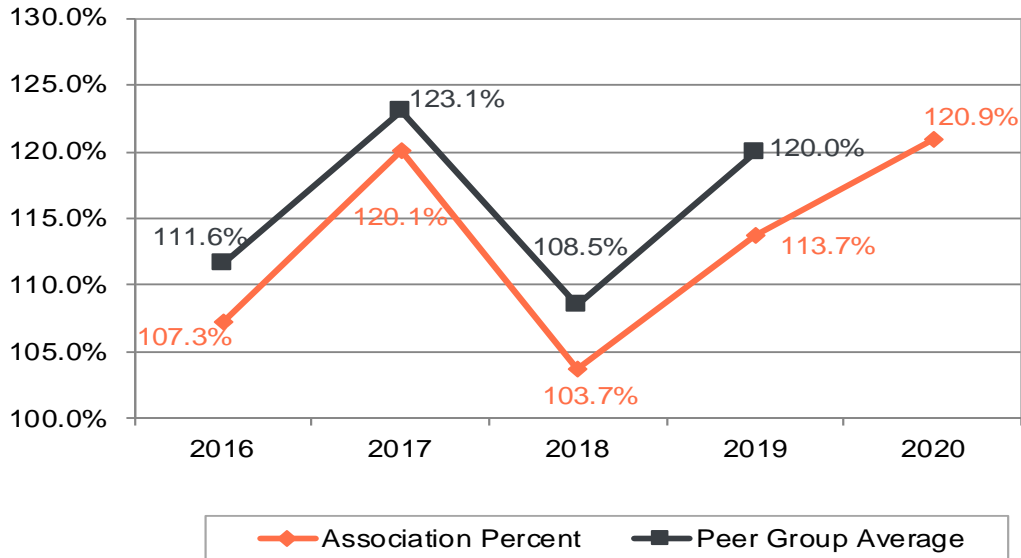
### Rate of Return

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**  
Mankato, Minnesota  
October 27, 2021

