

Financial Statements and Required Supplementary Information

St. Peter Fire Relief Association
St. Peter, Minnesota

For the Year Ended
December 31, 2019

St. Peter Fire Relief Association
St. Peter, Minnesota
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December 31, 2019

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INTRODUCTORY SECTION
ST. PETER FIRE RELIEF ASSOCIATION
ST. PETER, MINNESOTA

YEAR ENDED
DECEMBER 31, 2019

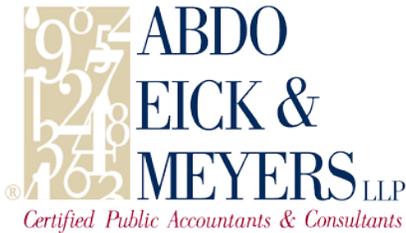
St. Peter Fire Relief Association
St. Peter, Minnesota
Organization
Year Ended December 31, 2019

| <u>Name</u> | | <u>Title</u> |
|-----------------|---------------------------|----------------|
| | Officers | |
| Ken Kocmick | | President |
| Mike Kennedy | | Vice President |
| Charles Johnson | | Secretary |
| Darrell Pettis | | Treasurer |
| | General Trustees | |
| Ed Johnson | | Trustee |
| Mark Kreykes | | Trustee |
| | Ex-Officio Members | |
| Chuck Zieman | | Mayor |
| Todd Prafke | | Administrator |
| Matt Ulman | | Fire Chief |

FINANCIAL SECTION

ST. PETER FIRE RELIEF ASSOCIATION
ST. PETER, MINNESOTA

YEAR ENDED
DECEMBER 31, 2019



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
 St. Peter Fire Relief Association
 St. Peter, 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 St. Peter Fire Relief Association (the Association) as of and for the year ended December 31, 2019, 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 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 opinion.

Summary of Opinions

| <u>Opinion Unit</u> | <u>Type</u> |
|--------------------------------------|-------------|
| Governmental Activities | Unmodified |
| General Fund | Unmodified |
| Aggregate Remaining Fund Information | Qualified |

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, 2019, 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, 2019, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

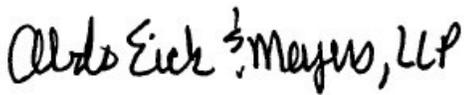
Other Matters

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, EICK & MEYERS, LLP
Mankato, Minnesota
February 4, 2020

Management's Discussion and Analysis

The discussion and analysis of the St. Peter Fire Relief Association (the Association) financial performance provides an overview of the financial activities and funding conditions for the fiscal year ended December 31, 2019.

Using the Annual Report

The financial statements, which reflect the activities of the Special Pension Trust fund (the Plan), are reported in the Statement 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 increased by \$241,858 (or 22.5 percent) as a result of the fiscal year's activities.
- Required contributions from the State increase by \$145 (or 0.2 percent). The increase was due to an increase in state aid of \$1,490, and an decrease in supplemental benefit of \$1,345.
- Net investment income increased by \$277,439 from prior fiscal year 2018.
- Accrued pension liability increased by \$61,167 (or 5.2 percent) from the prior year. This increase is due to the normal cost of the accrued liability offset with pension payouts of \$37,226.
- The Governmental fund's fund balance decreased by \$386 (or 1.5 percent) as a result of the fiscal year's activities. The fund balance of the Governmental fund at year end was \$25,376.

Plan Highlights

The plan's funding level increased from 91.4 percent to 106.5 percent.

Plan Net Position

| | December 31 | |
|--|--------------|--------------|
| | 2019 | 2018 |
| Cash and Cash Equivalents | \$ 282,023 | \$ 267,756 |
| Investments | 1,031,228 | 802,292 |
| Receivables | 1,655 | 3,000 |
| Net Position Restricted For Pension Benefits | \$ 1,314,906 | \$ 1,073,048 |

For the current fiscal year 2019 there is a net increase of \$241,858 (or 22.5 percent) from the previous fiscal year 2018. The previous fiscal year 2018 had a net decrease of \$206,012 (or 16.1 percent) from fiscal year 2017. This increase and decrease reflect the net changes in trust activities.

Changes in Plan Net Position

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

| | For the Years Ended December 31 | |
|---------------------------|------------------------------------|--------------|
| | 2019 | 2018 |
| Additions | | |
| Contributions | \$ 73,329 | \$ 73,184 |
| Investment income, net | 212,341 | (65,098) |
| Total Additions | 285,670 | 8,086 |
| Deductions | | |
| Benefit payments | 37,226 | 207,715 |
| Administrative expenses | 6,586 | 6,383 |
| Total Deductions | 43,812 | 214,098 |
| Change In Net Position | 241,858 | (206,012) |
| Net Position, January 1 | 1,073,048 | 1,279,060 |
| Net Position, December 31 | \$ 1,314,906 | \$ 1,073,048 |

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 contributions are the sum of the normal cost, the State contribution payment and the provision for administrative expenses.

Plan Membership

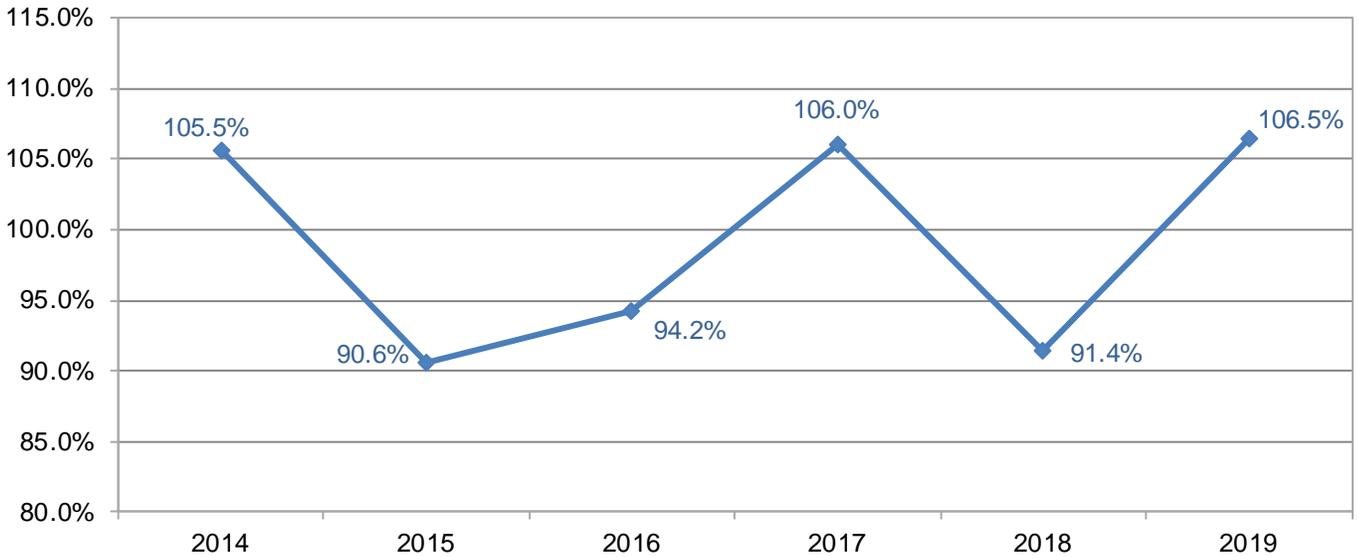
The following table reflects the Association's Plan membership as of the beginning and ending of the year:

| | December 31 | |
|----------------------------|-------------|------|
| | 2019 | 2018 |
| Active Participants | | |
| Vested | 27 | 28 |
| Non-vested | 9 | 6 |
| Retirees and Beneficiaries | 1 | 2 |
| Total Membership | 37 | 36 |

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.

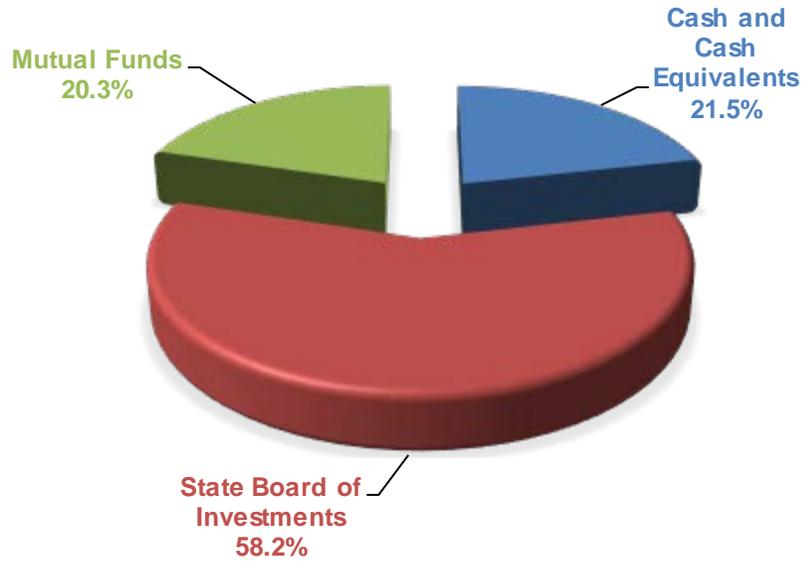
Because the standardized measure is used only for disclosure purposes by the Association, the measurement is independent of an actuarial computation made to determine contributions to the Association. The following graph represents the percentage funded trend for the last six years.



Asset Allocation

The following table and graph indicates the asset allocation for December 31, 2019:

| | As of December 31 | | | |
|-----------------------------------|---------------------|----------------|---------------------|----------------|
| | 2019 | | 2018 | |
| Cash and Cash Equivalents | \$ 282,023 | 21.5 % | \$ 267,756 | 25.0 % |
| State Board of Investments | 764,810 | 58.2 | 594,505 | 55.6 |
| Mutual Funds | 266,418 | 20.3 | 207,787 | 19.4 |
| Total Cash and Investments | \$ 1,313,251 | 100.0 % | \$ 1,070,048 | 100.0 % |



Changes in Fund Balance/Net Position for Governmental Fund

The following comparative summary of the changes in fund balances reflects the activities of the Governmental fund.

| | December 31 | |
|--|-------------|-----------|
| | 2019 | 2018 |
| Revenues | | |
| Fundraising | \$ 32,933 | \$ 25,327 |
| Donations | 3,369 | 1,468 |
| Membership dues | 186 | 132 |
| Interest | 10 | - |
| Total Revenues | 36,498 | 26,927 |
| Expenditures | | |
| Gifts, flowers and memorials | 235 | 53 |
| Meetings | 3,596 | 3,362 |
| Donations | 100 | 496 |
| Retirement party | 3,975 | 3,904 |
| Equipment and supplies | 379 | 4,623 |
| Fundraising expense | 26,670 | 16,667 |
| Other expenditures | 1,929 | 1,247 |
| Total Expenditures | 36,884 | 30,352 |
| Net Change In Fund Balances/Net Position | (386) | (3,425) |
| Fund Balances/Net Position, January 1 | 25,762 | 29,187 |
| Fund Balances/Net Position, December 31 | \$ 25,376 | \$ 25,762 |

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 November 1995 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 2019, on a relative basis to benchmarks, the real positive return of 19.8 percent was above the long-term net 13.7 percent return assumption target for the year. This rate of return is viewed, at this time, to be cyclical and the 13.7 percent assumption would be 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 invaluable in 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 Trustee's oversight. If you have any questions regarding this report or need additional financial information, please contact the St. Peter Fire Relief Association, 227 West Mulberry, St. Peter, Minnesota 56082.

BASIC FINANCIAL STATEMENTS
ST. PETER FIRE RELIEF ASSOCIATION
ST. PETER, MINNESOTA

YEAR ENDED
DECEMBER 31, 2019

St. Peter Fire Relief Association
St. Peter, Minnesota
Governmental Fund Balance Sheet/
Statement of Net Position
December 31, 2019

| | |
|---------------------------|-------------------------|
| Assets | |
| Cash and cash equivalents | \$ 23,932 |
| Investments | <u>1,444</u> |
| Total Assets | <u><u>\$ 25,376</u></u> |
| Fund Balance/Net Position | |
| Unrestricted/unassigned | <u><u>\$ 25,376</u></u> |

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

St. Peter Fire Relief Association
 St. Peter, Minnesota
 Statement of Governmental Fund Revenues, Expenditures and
 Changes in Fund Balance/Statement of Activities
 Year Ended December 31, 2019

| | |
|---|-----------|
| Revenues | |
| Fundraising | \$ 32,933 |
| Donations | 3,369 |
| Membership dues | 186 |
| Interest | 10 |
| Total Revenues | 36,498 |
| Expenditures | |
| Gifts, flowers and bequests | 235 |
| Conventions & meetings | 3,596 |
| Donations | 100 |
| Retirement party | 3,975 |
| Equipment and supplies | 379 |
| Fundraising expense | 26,670 |
| Other expenditures | 1,929 |
| Total Expenditures | 36,884 |
| Net Change In Fund Balance/Net Position | (386) |
| Fund Balance/Net Position, January 1 | 25,762 |
| Fund Balance/Net Position, December 31 | \$ 25,376 |

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

St. Peter Fire Relief Association
St. Peter, Minnesota
Statement of Fiduciary Net Position
Fiduciary Fund - Special Pension Trust Fund
December 31, 2019

| | |
|---------------------------------|---------------------|
| Assets | |
| Cash and cash equivalents | \$ 282,023 |
| Investments | 1,031,228 |
| Due from other governments | <u>1,655</u> |
| Net Position | |
| Restricted for pension benefits | <u>\$ 1,314,906</u> |

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

St. Peter Fire Relief Association
 St. Peter, Minnesota
 Statement of Changes in Fiduciary Net Position
 Fiduciary Fund - Special Pension Trust Fund
 Year Ended December 31, 2019

| | |
|---|---------------------|
| Additions | |
| Contributions | |
| State of Minnesota | |
| 2 percent insurance premium tax | \$ 71,674 |
| 10 percent supplemental reimbursement | <u>1,655</u> |
| Total Contributions | <u>73,329</u> |
| Investment Earnings | |
| Interest and dividends | 7,749 |
| Depreciation in fair value of investments | 207,641 |
| Less: investment advisor fees | <u>(3,049)</u> |
| Total Investment Earnings | <u>212,341</u> |
| Total Additions | <u>285,670</u> |
| Deductions | |
| Benefit payments | |
| Lump sum | 37,226 |
| Administrative expenses | |
| Salaries | 1,000 |
| Dues | 285 |
| Professional fees | 5,270 |
| Other | <u>31</u> |
| Total Deductions | <u>43,812</u> |
| Net Increase In Net Position | 241,858 |
| Net Position Restricted For Pensions | |
| Beginning of Year | <u>1,073,048</u> |
| End of Year | <u>\$ 1,314,906</u> |

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

St. Peter Fire Relief Association
St. Peter, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Plan Description

A. The Financial Reporting Entity

Firefighters of the City of St. Peter (the City) are members of the St. Peter Fire Relief Association (the Association), which was incorporated January 2, 1922. The Association is the administrator of a single-employer defined benefit pension plan (the Plan) available to firefighters. The Association operates under the provisions of Minnesota laws 1965, chapter 446 as amended and Minnesota statute chapters 69 and 424. 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. The Mayor, Administrator and Fire Chief are ex-officio members of the Board.

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, 2019, membership data related to the Association was:

| | |
|--|-------------|
| Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled To Benefits But Not Yet Receiving Them | 1 |
| Active Plan Participants | |
| Vested | 27 |
| Nonvested | 9 |
| | <hr/> |
| Total | 37 |
| | <hr/> <hr/> |

St. Peter Fire Relief Association
 St. Peter, Minnesota
 Notes to the Financial Statements
 December 31, 2019

Note 1: Plan Description (Continued)

C. Pension Benefits

Retirement Benefits:

According to the bylaws of the Association and pursuant to Minnesota statutes 424 A.02, subdivisions 2 and 4, the Association pays to each member who has served as an active firefighter in the St. Peter Fire Department (the Department) for a period of 20 years or more to his or her resignation, and who has reached the age of 50 years or more, \$3,000 per year of service in a 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 or 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 5 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:

| <u>Completed Years of Service</u> | <u>Nonforfeitable Percentage of Pension Amount</u> |
|---|--|
| 5 | 40 % |
| 6 | 44 |
| 7 | 48 |
| 8 | 52 |
| 9 | 56 |
| 10 | 60 |
| 11 | 64 |
| 12 | 68 |
| 13 | 72 |
| 14 | 76 |
| 15 | 80 |
| 16 | 84 |
| 17 | 88 |
| 18 | 92 |
| 19 | 96 |
| 20 and thereafter | 100 |

Sick and Disability Benefits:

If a member of the Association becomes permanently disabled with a service related disability, the Association shall pay to such member an amount equal to his/her full years of active service multiplied by the yearly lump sum determined at the withdrawal of active service (currently \$3,000). The member shall be eligible to receive the disability benefit immediately upon approval of the Board of Trustees.

St. Peter Fire Relief Association
St. Peter, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 1: Plan Description (Continued)

Death Benefits:

Upon the death of a member of the Association and submission and approval of an Application of Distribution, a survivor benefit will be paid to the surviving spouse, and if there is no surviving spouse, to the surviving child or children, if any, or to a surviving beneficiary. Upon the death of an active member while in performance of official duties as a member, the Association shall pay a survivor benefit equal to the amount per year of service for each year that the member served as an active firefighter without regard to minimum or partial vesting requirements, but in no case less than five times the pension amount per year of service in effect on the date of death. The supplemental survivor benefit will be paid when a lump-sum survivor benefit is paid; the amount of the survivor benefit to be paid is 20 percent of the survivor benefit, but not to exceed \$2,000.

A survivor benefit equal to a deceased deferred member's deferred service pension will be paid on behalf of the deceased deferred member. The survivor benefit may not exceed the total earned service pension of the deceased deferred member.

Note 2: Summary of Significant Accounting Policies and Plan Asset Matter

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 of Minnesota (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.

St. Peter Fire Relief Association
St. Peter, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 2: Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

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 2 percent insurance premium tax and amortization aid from the State.

C. Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the fire relief 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 fire relief'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 non-spendable 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 unrestricted fund balance is available. Additionally, the fire relief would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

D. Income taxes

The Organization is a nonprofit organization described in Section 501(c) 3 of the Internal Revenue Code and is exempt from Federal and State income taxes.

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

St. Peter Fire Relief Association
St. Peter, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 2: Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

As allowed under accounting principles generally accepted in the United States of America, the Organization would accrue, if applicable, income tax related interest and penalties in income tax expense in the Organization's statement of revenues, expenditures and changes in fund balances. During the year ended December 31, 2019, the Organization did not recognize any interest or penalties. With few exceptions, the Organization is no longer subject to tax examinations by tax authorities for years before 2016.

Note 3: Detailed Notes on Accounts

Cash and Cash Equivalents

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

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

Deposits

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

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

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

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

St. Peter Fire Relief Association
St. Peter, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 3: Detailed Notes on Accounts (Continued)

Following is a summary of the deposits covered by insurance or collateral at December 31, 2019:

| <u>Fund</u> | <u>Book</u> | <u>Bank</u> |
|-----------------------|-------------------|-------------------|
| Governmental | \$ 25,376 | \$ 27,622 |
| Special Pension Trust | 275,005 | 275,005 |
| Total | <u>\$ 300,381</u> | <u>\$ 302,627</u> |

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, 2019.

| <u>Types of Investments</u> | <u>Credit Quality/ Ratings (1)</u> | <u>Segmented Time Distribution (2)</u> | <u>Amount</u> | <u>Fair Value Measurement Using</u> | | |
|--|--|--|---------------------|-------------------------------------|----------------|----------------|
| | | | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Pooled Investments At Amortized Costs | | | | | | |
| Ameriprise money market | N/A | less than 6 months | \$ 7,018 | \$ - | \$ - | \$ - |
| Pooled Investments At Fair Value | | | | | | |
| Mutual funds | N/A | N/A | 266,418 | 266,418 | - | - |
| State Board of Investments | | | | | | |
| Bond fund | N/A | N/A | 777 | - | - | - |
| US Stock actively managed fund | N/A | N/A | 366,601 | - | - | - |
| Balanced fund | N/A | N/A | 59,305 | - | - | - |
| US Stock index fund | N/A | N/A | 196,390 | - | - | - |
| Broad international stock fund | N/A | N/A | 141,737 | - | - | - |
| Total Pooled Investments At Fair Value | | | <u>1,031,228</u> | <u>266,418</u> | <u>-</u> | <u>-</u> |
| Total Investments | | | <u>\$ 1,038,246</u> | <u>\$ 266,418</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.

The mutual funds held by the Association are deemed to be actively traded. (Level 1 inputs)

The Association invests funds of the Association in conformance with Minnesota state statutes 356A.06.

St. Peter Fire Relief Association
 St. Peter, Minnesota
 Notes to the Financial Statements
 December 31, 2019

Note 3: Detailed Notes on Accounts (Continued)

A Reconciliation of Cash and Investments Follows:

| | <u>Governmental</u> | <u>Special Pension Trust</u> | <u>Total</u> |
|--------------------------------|-------------------------|--------------------------------------|----------------------------|
| Carrying Amount of Deposits | \$ 25,376 | \$ 275,005 | \$ 300,381 |
| Carrying Amount of Investments | - | 1,038,246 | 1,038,246 |
| Total | <u>\$ 25,376</u> | <u>\$ 1,313,251</u> | <u>\$ 1,338,627</u> |
| Cash and Cash Equivalents | \$ 23,932 | \$ 282,023 | \$ 305,955 |
| Investments | 1,444 | 1,031,228 | 1,032,672 |
| Total | <u>\$ 25,376</u> | <u>\$ 1,313,251</u> | <u>\$ 1,338,627</u> |

The Investments of the Association are Subject to the Following Risks:

- *Credit Risk.* Is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes, section 11A.24, contains a specific list of asset classes available for investment, including common stocks, bonds, short term securities, real estate, private equity, and resource funds.
- *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 has adopted an investment policy with regard to investing the financial assets of all funds in depositories (savings; CDs; checking; money market) and securities. Funds of the Association will be invested in accordance with this policy, Minnesota statutes chapter 69.775 and written administrative procedures. The Association's investment portfolio shall be managed in a manner to maximize interest income, to preserve principle, and maintain adequate liquidity to meet the Association's needs for cash with prime concern for safety and liquidity.

Investment in State Board of Investments

The Minnesota State Board of Investment (SBI) is responsible for the investment management of various funds that are available for fire relief association. 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 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. Within the requirements defined by state law, the State Board of Investments, in conjunction with SBI staff and the Investment Advisory Council, establishes investment policies for all funds under its management. These investment policies are tailored to the particular needs of each fund and specify investment objectives, risk tolerance, asset allocation, investment management structure and specific performance standards.

St. Peter Fire Relief Association
St. Peter, Minnesota
Notes to the Financial Statements
December 31, 2019

Note 4: Funding Status and Progress

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

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

Note 5: Contributions Required and Contributions Made

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

A required contribution of \$73,329 was made by the State (including \$1,655 in supplemental benefit reimbursement) in accordance with Minnesota statute requirements for the year ended December 31, 2019.

Note 6: Risk Management

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

Note 7: Evaluation of Subsequent Events

The Organization has evaluated subsequent events through February 4, 2020, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

ST. PETER FIRE RELIEF ASSOCIATION
ST. PETER, MINNESOTA

YEAR ENDED
DECEMBER 31, 2019

St. Peter Fire Relief Association
 St. Peter, Minnesota
 Required Supplementary Information
 December 31, 2019

A. Schedule of Funding Progress

| Valuation Date | Value of Assets | Accrued Liability | Assets in Excess of (Unfunded) Accrued Liability | Funded Rate | Benefit per Year of Service |
|----------------|-----------------|-------------------|--|-------------|-----------------------------|
| 12/31/19 | \$ 1,314,906 | \$ 1,234,991 | \$ 79,915 | 106.5 % | \$ 3,000 |
| 12/31/18 | 1,073,048 | 1,173,824 | (100,776) | 91.4 | 3,000 |
| 12/31/17 | 1,279,060 | 1,206,105 | 72,955 | 106.0 | 2,800 |
| 12/31/16 | 1,052,577 | 1,117,738 | (65,161) | 94.2 | 2,800 |
| 12/31/15 | 1,043,728 | 1,152,063 | (108,335) | 90.6 | 2,800 |
| 12/31/14 | 996,074 | 943,707 | 52,367 | 105.5 | 2,400 |

B. Schedule of Employer Contribution

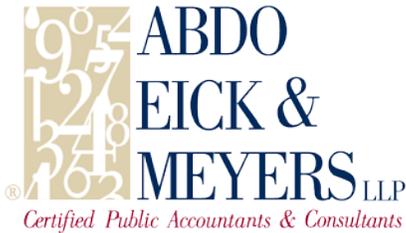
| Year | Annual Pension Cost (APC) | Percent Contributed |
|------|---------------------------|---------------------|
| 2019 | \$ 73,329 | 100.0 % |
| 2018 | 73,184 | 100.0 |
| 2017 | 69,922 | 100.0 |
| 2016 | 70,480 | 100.0 |
| 2015 | 68,622 | 100.0 |
| 2014 | 76,596 | 100.0 |

C. Notes to the Required Supplementary Information

| | |
|--------------------------------|---------------------|
| Valuation Date | 12/31/19 |
| Actuarial Cost Method | Entry age normal |
| Amortization Method | Level dollar closed |
| Remaining Amortization Period: | |
| Normal cost | 20 years |
| Prior service cost | 5 years |
| Asset Valuation Method | Market |
| Actuarial Assumptions | |
| Investment rate of return | 13.7% |
| Projected salary increases | N/A |
| Inflation rate | N/A |
| Cost of living adjustments | None |

COMPLIANCE SECTION
ST. PETER FIRE RELIEF ASSOCIATION
ST. PETER, MINNESOTA

YEAR ENDED
DECEMBER 31, 2019



INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

Board of Trustees
St. Peter Fire Relief Association
St. Peter, 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 St. Peter Fire Relief Association (the Association) as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated February 4, 2020.

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 pursuant to Minn. Statute 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Association's noncompliance with the above referenced provisions.

This report is intended solely for the information and use of those charged with governance and management of the Association and the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
February 4, 2020